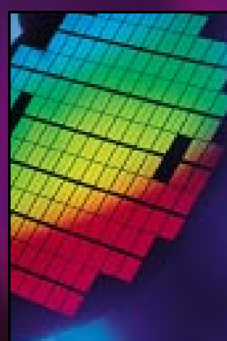
Expanding in New Directions

Veeco Instruments Inc.



Veeco

Annual Report '99

Veeco at a Glance

GROWTH

AT A GLANCE

Veeco's Markets

Data Storage

The data storage industry is in the midst of a rapid technological change to giant magnetoresistive (GMR) heads, which enable the storage of more data. Areal densities are increasing 100% per year. Newer, more sensitive heads have finer geometries and require thinner films—and are more complicated to manufacture. In addition to providing the ion beam etch and deposition and physical vapor deposition (PVD) process equipment behind many of today's record areal densities, Veeco provides metrology and magnetic test equipment for yield improvement and process control as our customers strive to ramp to full GMR production. Veeco is the leader in providing data storage customers with "one-stop" next-generation GMR solutions.

Optical Telecommunications

The Internet has created an insatiable demand for bandwidth. As telecommunications companies race to expand their optical fiber networks, dense wavelength division multiplexing (DWDM) technology has emerged as a clear solution for increasing the capacity of the fiber optic networks without adding new fibers. Veeco is a leading provider of ion beam deposition systems, which are being used to help create a critical component of these DWDM systems, optical filters. In addition, Veeco's broad range of ion beam etch and physical vapor deposition tools have further applications in this exploding market, particularly in the production of active components for optical networks.

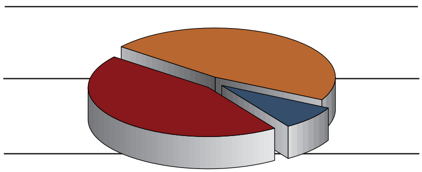
Semiconductor

In the semiconductor industry, chip manufacturers continue to race to develop ever-smaller, sub-micron geometries—0.25, 0.18, 0.13 micron and below. With systems at virtually every major semiconductor maker worldwide, Veeco is committed to providing metrology (measurement) solutions for process development and yield optimization. Veeco's Metrology Group is a world leader in critical dimension measurement for characterizing today and tomorrow's semiconductor processes. Veeco offers a broad metrology product line including high resolution atomic force metrology, stylus profilers and non-contact optical tools.

Research/Industrial

Veeco's leading edge products for research and scientific applications also provide enormous opportunities for growth—and will be solving tomorrow's manufacturing challenges. Micro-miniaturization and process refinement is occurring in a broad spectrum of scientific and industrial applications such as polymers, optics, biomedical sciences, advanced materials, metallurgy, thin films, paints, coatings and electrochemistry. In all cases, ultra-high resolution surface metrology is key to characterizing results. Veeco's atomic force microscopes, stylus profilers and optical measurement systems are used in a wide range of scientific applications for research, development, manufacturing, quality control and defect analysis.

Veeco Sales by Product

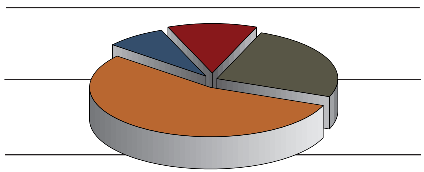


Metrology 45%

Process Equipment (Etch and Deposition) 48%

Industrial Measurement 7%

Veeco Sales by Market



Data Storage 55%

Optical Telecommunications 8%

Semiconductor 12%

Research/Industrial 25%

Veeco Overview

Veeco designs, manufactures, markets and services a broad line of equipment primarily used by manufacturers in the data storage, optical telecommunications and semiconductor industries. These industries help create a wide range of technology products for today and tomorrow—such as personal computers, network servers, fiber optic networks, digital cameras, TV set-top boxes and personal digital assistants.

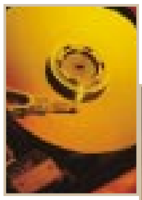
Our Process Equipment products precisely deposit or etch (remove) various materials in the manufacturing of advanced thin film magnetic heads for the data storage industry. In addition, with the merger of Ion Tech in 1999, Veeco became the leading supplier of ion beam deposition equipment to the fast-growing dense wavelength division multiplexing (DWDM) filter market. Veeco's broad line of leading edge technology allows customers to improve time to market of next generation products.

Our Metrology equipment provides critical surface measurements on thin film magnetic heads and disks used in hard drives, as well as on semiconductor wafers and in research applications. This equipment allows customers to monitor their products throughout the manufacturing process in order to improve yields, reduce costs and improve product quality. Veeco continued to broaden its data storage, surface metrology and magnetic testing product line in 1999 with the acquisition of OptiMag and in early 2000 with its acquisition of Monarch Labs and strategic alliance with Seagate Technology.

Veeco supplies worldwide industry leaders including Seagate, IBM, Read-Rite, TDK, and Alps in data storage; and Motorola, Promos and Infineon in semiconductor. With our expansion in the optical telecommunications market, Veeco is now well positioned to serve the expanding equipment needs of industry leaders. Our global sales and service organization is located throughout the United States, Europe, Japan and Asia Pacific. Veeco ended 1999 with nearly 1,000 employees and has manufacturing, research and development and engineering facilities in Arizona, California, Colorado, Minnesota and New York.

Veeco's strategy is focused on providing equipment and metrology solutions to customers in three information age growth industries — Data Storage, Optical Telecommunications, Semiconductor, as well as the research and scientific marketplace.

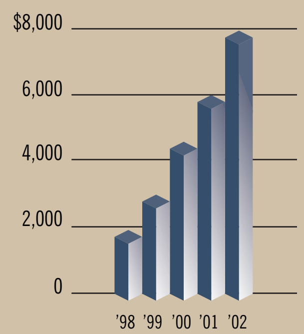
driving our growth



Veeco's future is being driven by strong fundamental technology changes, including continued growth in the PC market, increases in disk drive storage capacity, and the need for increased bandwidth to support explosive Internet traffic growth.

OPTICAL DWDM COMPONENT SALES

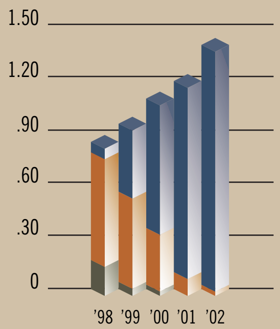
($ in millions)



Source: Ryan Hankin & Kent

DATA STORAGE THIN FILM HEAD GROWTH

(units in millions)

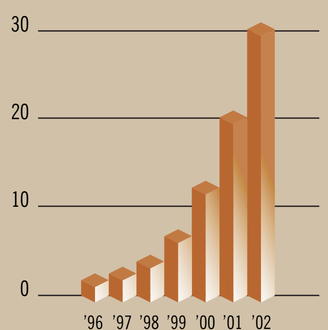


Source: Peripheral Research Inc.

Inductive MR GMR

RAPID INCREASES IN HARD DRIVE STORAGE CAPACITY

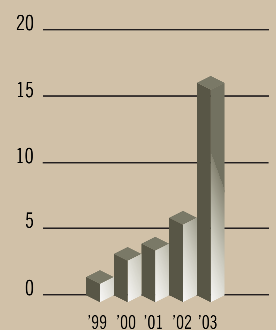
(in gigabytes)



Source: TrendFocus, Inc.

INTERNET TRAFFIC FORECAST

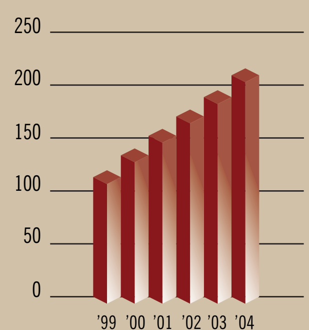
(terabytes per month in millions)



Source: Ryan Hankin & Kent

WORLDWIDE PC SHIPMENTS

(units in millions)



Source: IDC

Performance at a Glance

(In thousands except per share amounts)	**1999**	1998	1997	1996	1995
	Year ended December 31,				
Statement of income data:					
Net sales	**$246,606**	$214,985	$223,410	$170,829	$128,796
Operating income (excluding non-recurring charges)	**37,881**[1]	27,616[2]	40,968[3]	34,105	24,089
Income before income taxes	**32,396**	19,109	34,396	34,341	23,840
Net income	**20,410**	13,373	26,616	27,274	21,250
Diluted earnings per share	**$ 1.15**	$ 0.82	$ 1.62	$ 1.70	$ 1.36
Pro forma diluted earnings per share excluding non-recurring charges[4]	**$ 1.48**	$ 1.01	$ 1.55	$ 1.33	$ 1.07
Balance sheet data:					
Working capital	**$149,873**	$ 87,073	$ 70,483	$ 63,030	$ 50,361
Long-term debt (including current installments)	**16,994**	18,797	19,367	12,007	11,944
Shareholders' equity	**192,351**	115,739	96,147	73,525	60,127

(1) Excludes non-recurring charges of $7.3 million, related to $2.6 million of merger expenses, $2.5 million for loss on sale of leak detection business, a $1.3 million in-process R&D write-off and $0.9 million of other net charges.

(2) Excludes non-recurring merger and reorganization expenses of $7.5 million.

(3) Excludes non-recurring merger expenses of $2.3 million and an in-process R&D write-off of approximately $4.2 million.

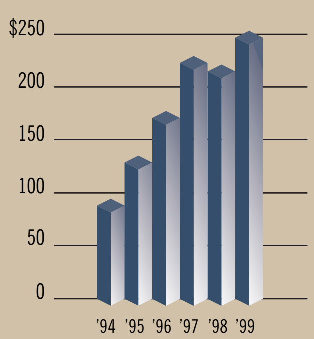
(4) Computed using a fully taxed statutory rate and excludes the effects of the non-recurring charges.

1999 Highlights:

- Sales up 15% over 1998
- Bookings increase 12%
- Operating profit increases 37%

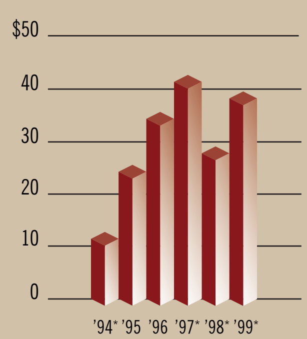
improving results

Sales
($ in millions)



5 Year CAGR +24%

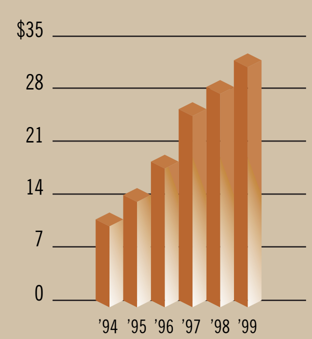
Operating Profit
($ in millions)



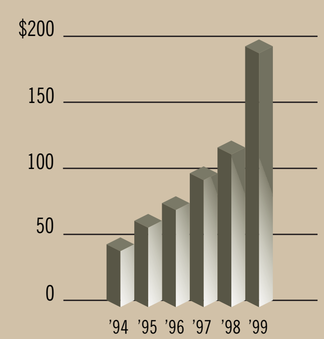
5 Year CAGR +36%

*Exclusive of non-recurring charges

R&D
($ in millions)

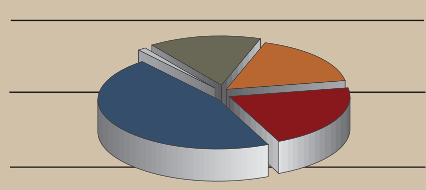


Stockholders' Equity
($ in millions)



5 Year CAGR +36%

Veeco Sales by Geographic Region



- United States 46%
- ROW 1%
- Asia Pacific 15%
- Japan 21%
- Europe 17%

In November 1999, Veeco announced a bold strategic initiative geared toward expanding our product line into an exciting new, yet complementary, end market…optical telecommunications.

Dear Shareholders

An Excellent Year

1999 was a positive year for Veeco, including record sales and bookings and strong operating profit growth. This performance is a direct result of our strategy to focus on opportunities in three high-growth information age markets—data storage, optical telecommunications, and semiconductor, while broadening our equipment and metrology product lines through internal growth and acquisitions. Veeco's 1999 equity offering raised approximately $49 million, strengthening our balance sheet and providing additional capital for future growth. The year's financial highlights included:

- Sales increased 15% from $215.0 million in 1998 to $246.6 million in 1999;
- Operating profit increased 37% from $27.6 million in 1998 to $37.9 million in 1999 (excluding non-recurring charges);
- 1999 bookings reached $257.2 million, up 12% from the $230.3 million reported in 1998.

In the year ended December 31, 1999, Veeco's sales by market were as follows: 55% data storage, 12% semiconductor, 8% optical telecommunications and 25% research/industrial. Veeco's sales to the data storage industry grew 20% in 1999, despite an industry-wide downturn caused by overcapacity and pricing pressures. We attribute Veeco's data storage growth to our broad equipment and metrology product lines for advanced GMR applications, our penetration of international customers, and our strategic relationships with key accounts.

As a result of our initiatives to reach a broader base of worldwide customers through direct sales and service, Veeco's 1999 sales outside of the U.S. increased to over half of our total sales. In fact, Japanese sales were up over 40% from 1998 levels, and sales to our Asia-Pacific customers increased 77%. Seven of our top 10 customers in 1999 were from these markets, including TDK/SAE, Alps, Hitachi, Fujitsu, Toshiba, Samsung and Matsushita.

Veeco's Process Equipment product line, which represented 48% of 1999 sales, increased 70% over 1998 levels, while Metrology, which represented 45% of sales, decreased 11% in the year. Due to their capital constraints, our data storage customers were unable to fund both equipment and metrology investments last year. However, we expect 2000 to be a growth year for metrology, due to the critical need for yield improvement technologies.

Exciting New Market—Ion Tech Merger

In November 1999, Veeco announced a bold strategic initiative geared toward expanding our product line into an exciting new, yet complementary, end market…optical telecommunications. Our merger with Ft. Collins-based Ion Tech enabled us to become the leading provider of ion beam deposition equipment to the rapidly growing dense wavelength division multiplexing (DWDM) filter industry. Ion Tech's SPECTOR™ optical coating deposition system is used to manufacture precise multi-layer optical filters critical to extending "bandwidth" of fiber optic telecommunication networks. Ion Tech's bookings increased from $9.0 million in 1998 to $37.1 million in 1999, with a current order rate at over $70 million forecasted for 2000. Ion Tech ideally fits our merger profile: providing leadership technology, addressing a high-growth industry segment with significant market presence, and brings high operating profits and a strong management team.

Strengthening Data Storage Leadership

The data storage industry affords Veeco compelling opportunities for growth; and we further solidified our leadership position during 1999 and early 2000. Continued breakthroughs in higher areal densities now indicate that advanced GMR technology is extendable to allow future hard drive capacity approaching 100 GB by 2004. Veeco has started the development of next generation etch and deposition equipment products to meet this data storage industry requirement. In addition, advanced GMR manufacturing will require new metrology and test products to provide much needed yield improvement. As data storage customers continue to seek deeper relationships with fewer worldwide suppliers, we see further opportunities to grow through both internal development and acquisitions.

Our acquisitions of OptiMag and Monarch Labs, both startup companies with emerging technologies, represent significant extensions of our in-line yield enhancing metrology and test product offerings for worldwide data storage customers. OptiMag supplies automated optical defect inspection and process control equipment, and Monarch manufactures automated magnetic test systems used in the production of thin film magnetic heads. It is Veeco's goal to provide one-stop metrology and test solutions to our customers as they continue to ramp production of GMR heads.

Edward H. Braun *Chairman, CEO and President*

In February 2000, we also signed an important strategic alliance with Seagate Technology Inc., our largest customer. Veeco purchased technology which micro-machines thin film magnetic heads to adjust curvature for improved fly height. With this acquisition, Veeco opened a design and manufacturing center in Minneapolis focusing on the development of thin film magnetic head process, metrology and test equipment. In addition to providing this equipment to Seagate, it is our intention to commercialize this technology for sale to the worldwide data storage industry. We view this agreement as a model for strategic outsourcing alliances that can result in technology additions to Veeco and improved "time-to-market" of new products for our customers. With our divestiture of the older, unprofitable Leak Detection business in January 2000, Veeco heightened our focus on core product areas.

Continued Internal Growth

Several of Veeco's product areas experienced strong growth during 1999. Some highlights included:

- Veeco Metrology, Santa Barbara (formerly Digital Instruments) had record atomic force microscope sales and orders in 1999. This strength included semiconductor use of our new Dimension™ Vx Atomic Force Profiler targeted to the high-growth chemical-mechanical polishing (CMP) market. We see continued strength in our Dimension 9000 product for critical dimension measurement.
- Veeco Process Equipment, Plainview reported record deposition sales to the data storage industry. We also introduced our new Cymetra® II Planetary PVD system in mid-1999.
- Our Tucson Metrology Group received multiple orders for in-situ optical metrology tools to be integrated into GMR TFMH production processes.

Focused Strategy for Growth

Veeco remains committed to our growth strategy:

- Strengthen our position as the leading "one-stop shop" for etch, deposition and metrology equipment for the data storage industry;
- Capitalize on the explosive growth in the optical telecommunications industry by expanding process equipment and metrology solutions;
- Pursue focused opportunities in the semiconductor industry in which Veeco has specific technology leadership;
- Pursue strategic mergers, acquisitions and internal product development to further expand our product line;
- Leverage our technology and strategic customer relationships and assist our customers' time to market for their new products;
- Utilize our industry-leading global sales and service network to further strengthen customer relationships.

A Look Ahead

As we begin 2000, we proudly look back on Veeco's accomplishments. Since our management buyout in 1990: sales have increased nearly ten-fold, our market capitalization has increased from $30 million to over $1 billion as of this writing, and we have completed seven acquisitions. We begin this year with the broadest product line in the history of our Company, and a renewed focus to deliver high quality, leading edge equipment and metrology solutions to key customers in three information age growth markets. On February 29, 2000, Veeco announced our intention to merge with CVC, Inc. The potential combination of Veeco and CVC will provide broader equipment and process solutions to our data storage, optical telecommunications and semiconductor customers. CVC is an ideal merger partner—bringing complementary technology leadership and a strong management team. We currently await regulatory and shareholder approval of this transaction

We want to thank our customers, employees and shareholders for their continued support of Veeco, and reaffirm our commitment to growth and expansion in 2000 and beyond.

March 27, 2000

In 2000, we will continue to focus on expanding our position as a data storage process equipment supplier, as well as pursue new opportunities in the optical telecommunications market. Our recent merger with Ion Tech and our pending merger with CVC, Inc. will enable Veeco to further capitalize on opportunities in these markets.

Year in Review

Process Equipment

Process Equipment for DWDM Market

In November, Veeco completed our merger with Ion Tech, Inc., based in Ft. Collins, CO. Ion Tech's SPECTOR systems define the industry standard for DWDM filter manufacturing—a crucial part of the world's telecommunication and data infrastructures. Able to precisely deposit controlled film thicknesses, with unsurpassed repeatability, our IBD systems are used to create the filters that allow multiple channels to share the same optical fiber. With its precise control of deposition rates and uniformities, SPECTOR has the capability to produce 32 channel 100 GHz bandwidth filters—making it ideally suited for DWDM manufacturers' next generation filter requirements.

Now that Veeco and Ion Tech have merged, Veeco's greater resources and an aggressive new product development plan will pave the way for future narrow-band filters, which increase the data carrying capacity of existing optical lines even further. In the last few months we have increased Ion Tech's plant size nearly two-fold, with plans in place for a new site in 2001. This significant expansion will enable Ion Tech to dramatically improve its ability to meet the enormous market demand of the DWDM industry. Ion Tech is in the process of delivering improved systems with optical monitoring control to improve the tool's ease of use and customer interface. Access to Veeco's worldwide sales and service network has also benefitted Ion Tech. They are now better able to penetrate and serve component manufacturers as well as the larger systems manufacturers.

Going forward, we are increasingly optimistic about Veeco's opportunities to serve this industry. As our optical telecommunications customers strive to meet the dramatic surge in demand for both passive and active components, they will look for outsourcing relationships which offer superior technology combined with critical time-to-market solutions. We are well positioned to be their supplier of choice.

Veeco One-Stop Solution for Data Storage

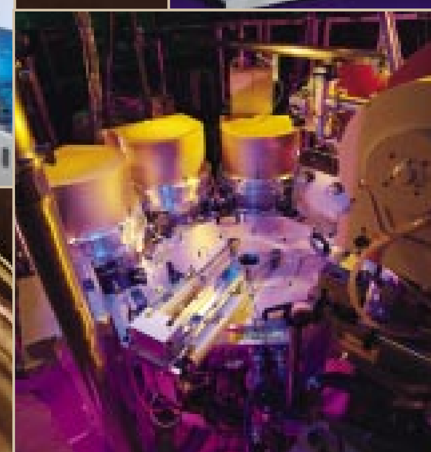
Veeco's data storage Process Equipment business posted a strong 1999, driven by the industry's significant investment in GMR technology.

We are the clear leader in creating GMR solutions. Veeco Ion Beam Etching (IBE) is the industry standard for milling of air bearing surfaces for precise fly height control as well as pole tip definition and width control. Our Ion Beam Deposition (IBD) and Physical Vapor Deposition (PVD) systems deposit defect-free, highly uniform films with strict control of magnetic and dielectric properties. And Veeco Diamond-Like Carbon (DLC) systems provide hard protective coatings and reduce electrostatic damage, thereby improving the head's reliability. We are the leading provider of integrated cluster tools offering combined IBE, IBD and PVD technology and a single, integrated control system. Our pending merger with CVC, Inc. will further expand our process solutions for the data storage industry. The merger is subject to a number of conditions, and is currently scheduled to be completed in the second quarter of 2000.

Highlights for Veeco's data storage Process Equipment operations in 1999 included:

- Record sales in IBD and PVD during 1999—sales increased 70% over 1998 levels driven by customers' move to GMR technology;
- Through technology partnerships with leading data storage customers, Veeco's equipment enabled the achievement of several significant areal density milestones;
- The introduction of our Cymetra II PVD system, a next-generation tool which allows deposition of up to ten materials with leading edge planetary technology—offering the highest throughput of any PVD system currently available;
- Our penetration of major worldwide data storage customers;
- Combining our manufacturing facilities for IBD, PVD and IBE product lines under one roof in Plainview, NY in order to maximize production efficiencies and achieve next-generation technology advances.

EXPANDING MARKETS



Left and bottom:
Veeco Process Equipment
Cluster Tools
Top right: SPECTOR
IBD System

Compelling Growth Opportunity:

- Fiber optic cables are the backbone of the world's telecommunications infrastructure.
- Some market analysts estimate that the demand for bandwidth triples every year.
- Many telecommunications carriers believe that the only way to satisfy growing capacity demand is to optimize existing fiber cable installations.
- DWDM offers the fastest and most economical way to add bandwidth capacity compared with other solutions.
- The market for DWDM components, such as filters, is forecast to grow at over 60% per year for the next three years.

In 1999 and early this year, we continued to broaden our product offerings in data storage metrology with our acquisitions of OptiMag and Monarch Labs, as well as our strategic alliance with Seagate Technology for the development of in-situ metrology systems. Our Atomic Force profiler has made significant penetration of semiconductor CMP and fine line geometry applications.

Metrology

Veeco is the world leader in 3D surface metrology. We have a broad range of technologies that measure properties such as critical dimensions, film thickness, microroughness, step height, contour and depth in data storage devices, semiconductors, and research/industrial applications. Veeco's powerful combination of measurement and test technologies include atomic force microscopes, optical profilers, stylus profilers, X-ray fluorescence thickness and composition systems, and our newest additions—optical inspection and magnetic device testing systems.

Expanding Our Data Storage Footprint

Veeco metrology systems help data storage manufacturers develop new head and disk processes and increase their manufacturing yields through in-line and process inspection. On the production line, our in-line inspection systems allow manufacturers to increase yields, and reduce time to ramp production, often achieving payback in just a few months. In 1999 and early this year, we continued to broaden our product offerings in data storage metrology with our acquisition of OptiMag and merger with Monarch Labs. Their products further strengthen Veeco's ability to provide one-stop metrology and test solutions for our data storage customers. OptiMag's high-throughput optical inspection equipment detects and classifies visual defects in GMR thin film heads at slider level to resolutions of .175 micron. Monarch Labs' tools monitor magnetic device performance of GMR heads, providing essential feedback for process control and device performance improvement.

Through our strategic alliance with Seagate Technology Inc., our largest customer, Veeco will now manufacture Slider Curvature Adjust (SCA) systems which micro-machine thin film magnetic heads while providing real-time process feedback using in-situ metrology. This new alliance will enable us to commercialize an exciting "hybrid" technology for sale to the worldwide data storage industry.

Data Storage Highlights

- Veeco Metrology Tucson received a total of $5.0 million in orders in 1999 for in-situ optical metrology tools to be integrated in a GMR TFMH manufacturing process at the slider level, evidence of the growing awareness among thin film head manufacturers of the economic benefits of in-situ production level slider testing.
- Veeco's new Dimension Vx Atomic Force Profiler (AFP) was introduced to the semiconductor and data storage industries, combining the sub-angstrom resolution of an AFM with the long-scanning capability of a stylus profiler.

Specialty Semiconductor Applications

Next-generation semiconductor processes will require atomic and molecular scale uniformity. Veeco's high resolution atomic force microscopes, non-contact optical tools, automated stylus profilers and new combined tools such as our Vx atomic force profilers have the ability to meet and exceed the needs of next generation CMP and sub .15 micron processes.

Semiconductor Highlights

- Veeco Metrology Santa Barbara introduced the Dimension 9300 Series atomic force microscopes for at-line process monitoring of 300mm wafers.
- Santa Barbara also began shipping its new Dimension Vx AFP, a multigenerational tool specifically designed for non-destructive measurement of dishing, erosion, and recess with both profiling and imaging of chemical-mechanical polishing (CMP) on 200mm and 300mm wafers. Because of the system's superior resolution, low force, and high speed profiling and imaging capabilities, the Dimension Vx is now the metrology tool of choice for CMP.

Research

Continuing our strong heritage of providing metrology solutions to research and scientific markets, Veeco Metrology Santa Barbara established a new R&D group to focus on developing new instrumentation for applications in materials sciences, biology, polymers, magnetics and other fields. For example, researchers at Bell Labs-Lucent Technologies used Veeco's Dimensions 3100 Scanning Capacitance Microscope in the development of the world's smallest next generation transistors.

BROAD PRODUCT LINE

Left: OptiMag Defect Review Stations
Top right: Monarch Quasi-Static Tester
Bottom: Dimension 9300 Atomic Force Microscope

1999 Metrology Highlights:

- Furthered our “one-stop shopping” strategy with the acquisitions of OptiMag and Monarch.
- Expanded critical technology with purchase of Seagate SCA technology.
- Veeco Metrology Santa Barbara reported record sales of atomic force microscopes.

We recognize that Veeco equipment is an important investment for our customers. Maximizing their return on this investment is the primary mission of Veeco's worldwide support network.

Worldwide Support

Veeco's worldwide customer support is a key strategic resource in providing integrated solutions to our customers—and in creating strong customer partnerships. The result of several years of expansion, Veeco's support network now spans over 20 offices in the U.S., Japan, Asia Pacific and Europe—offering seven day per week, 24 hour per day worldwide support to our customers. This agile support allows our customers to keep running at maximum potential. Veeco's 200-plus field sales and service engineers and technical support staff is the industry's largest team servicing key data storage customers, and this network is also of enormous benefit to our customers in the optical telecommunications and semiconductor industries as well.

Maximizing Equipment Return on Investment

We recognize that Veeco equipment is an important investment for our customers. Maximizing their return on this investment is the primary mission of Veeco's worldwide support network. Our service programs are designed to ensure peak performance and top process efficiency to our customers. In order to meet their heightened demands, Veeco must provide our worldwide customers with extensive global process support in addition to broadened process technologies. Veeco's service goal is to help our customers improve their time-to-market capability. Our broad range of service options include extended warranty programs, preventive maintenance, parts depots, customer training programs and on-site, dedicated service teams assigned to customer locations.

Scalable Support Fits Customer Needs

Whether our customers are looking for installation and training, per call service with guaranteed response time, or strategic partnering to compress product development cycles, we have developed service products to meet their needs.

Recent Initiatives and Future Goals

During 1999, we continued to upgrade and enhance this critical aspect of our company through the following initiatives:

- Strengthened our network throughout the Asia-Pacific region, in particular with the opening of our Singapore office;
- Expanded service and support operations in Japan and Europe through the addition of key personnel and strategically located parts centers;
- Added a service and support facility in Ireland;
- Further equipped our training and technical support facility in San Jose, CA for customer use.

Going forward, our customer support objective will be to:

- Enhance our product offerings by continuing to provide quality and timely customer service;
- Deliver the right product, at the right time, which meets our customers' specific requirements;
- Provide "single point of contact" for Veeco customers;
- Be viewed by our customers as "best in class" service provider;
- Minimize customers' cost of ownership.

We will continue to seek opportunities to enhance our worldwide support network as required by our customers. More than just satisfying our customers, Veeco worldwide service and support strives to create true customer partnerships.

MAXIMIZING RETURN ON INVESTMENT

CONTENTS

Selected Historical Consolidated Financial Data

	Years ended December 31,				
	1999	1998	1997	1996	1995
(In thousands, except per share data)					
Statement of income data (1):					
Net sales	**$246,606**	$214,985	$223,410	$170,829	$128,796
Cost of sales	**125,650**	115,441	113,487	86,324	63,914
Gross profit	**120,956**	99,544	109,923	84,505	64,882
Costs and expenses	**83,944**	71,928	68,955	50,400	40,793
Merger and reorganization expenses	**2,600 (2)**	7,500 (3)	2,250 (4)	—	—
Loss on sale of leak detection business	**2,500**	—	—	—	—
Write-off of purchased in-process technology	**1,300**	—	4,200	—	—
Operating income	**30,612**	20,116	34,518	34,105	24,089
Interest (income) expense, net	**(1,784)**	1,007	122	(236)	249
Income before income taxes	**32,396**	19,109	34,396	34,341	23,840
Income tax provision	**11,986**	5,736	7,780	7,067	2,590
Net income	**$ 20,410**	$ 13,373	$ 26,616	$ 27,274	$ 21,250
Earnings per share:					
Net income per common share	**$ 1.17**	$ .83	$ 1.67	$ 1.73	$ 1.39
Diluted net income per common share	**$ 1.15**	$ .82	$ 1.62	$ 1.70	$ 1.36
Pro forma Income Tax Presentation (5):					
Income before income taxes	**N/A**	$ 19,109	$ 34,396	$ 34,341	$ 23,840
Pro forma income tax provision	**N/A**	7,190	12,987	13,089	7,147
Pro forma net income	**N/A**	$ 11,919	$ 21,409	$ 21,252	$ 16,693
Pro forma net income per common share	**N/A**	$ 0.74	$ 1.35	$ 1.35	$ 1.09
Pro forma diluted net income per common share	**N/A**	$ 0.73	$ 1.30	$ 1.33	$ 1.07
Weighted average shares outstanding	**17,381**	16,136	15,901	15,760	15,259
Diluted weighted average shares outstanding	**17,768**	16,396	16,417	15,999	15,577

	As of December 31,				
	1999	1998	1997	1996	1995
Balance Sheet Data (1):					
Cash, cash equivalents and short-term investments	**$ 80,306**	$ 23,493	$ 20,825	$ 26,640	$ 20,913
Working capital	**149,873**	87,073	70,483	63,030	50,361
Excess of cost over net assets acquired, net	**5,509**	4,187	4,318	4,448	4,579
Total assets	**265,279**	179,231	165,951	117,997	97,284
Long-term debt (including current installments)	**16,994**	18,797	19,367	12,007	11,944
Shareholders' equity	**192,351**	115,739	96,147	73,525	60,127

(1) In November 1999, Veeco merged with Ion Tech, Inc., in a transaction accounted for as a "pooling of interests." Prior to its merger with Veeco, Ion Tech's fiscal year end was June 30. In connection with the merger, the financial results of Ion Tech were recast for 1998 to conform to Veeco's December 31 year end. For the years ended 1997, 1996 and 1995 Veeco's historical results include Ion Tech's fiscal year ended June 30, 1998, 1997 and 1996 results, respectively, thus resulting in six months of Ion Tech's fiscal 1998 activity included in Veeco's 1997 results of operations.

(2) During 1999, the Company recorded a $2.6 million charge for merger related fees consisting of legal, investment banking and other transaction costs in connection with the merger with Ion Tech.

(3) Merger expenses related to the Digital merger were comprised of transaction fees and expenses of $3.3 million and a $1.6 million non-cash compensation charge related to stock issued in accordance with a pre-existing agreement with a key Digital employee. Reorganization expenses consisted of $0.5 million for termination benefit costs, $0.7 million for an estimated loss on a future sublease of an abandoned office and manufacturing facility, $0.9 million for write-downs of long-lived assets held for sale or disposal, and $0.5 million for other costs. See Note 2 to the Consolidated Financial Statements.

(4) During 1997, the Company recorded a $2.3 million charge for merger related fees consisting of investment banking, legal and other transaction costs in connection with the merger with Wyko.

(5) Pro forma net income and pro forma earnings per share present income taxes as if Digital, which was merged with the Company in May 1998 in a transaction accounted for as a pooling of interests, had been a "C" corporation for all periods presented and, therefore, subject to federal income taxes at the corporate level. Prior to the merger, Digital had elected "S" corporation status for income tax purposes and, therefore, was not subject to federal income taxes.

Quarterly Results of Operations

The following table presents selected financial data for each quarter of fiscal 1999 and 1998. Although unaudited, this information has been prepared on a basis consistent with the Company's audited financial statements and, in the opinion of the Company's management, reflects all adjustments (consisting only of normal recurring adjustments) that the Company considers necessary for a fair presentation of this information in accordance with generally accepted accounting principles. Such quarterly results are not necessarily indicative of future results of operations and should be read in conjunction with the audited financial statements of the Company and the notes thereto.

Quarterly Statements of Income (In thousands, except for per share data):

	Fiscal 1999					Fiscal 1998				
	Q1*	**Q2***	**Q3***	**Q4**	**Year**	Q1*	Q2*	Q3*	Q4	Year
Net sales	**$59,884**	**$59,304**	**$63,621**	**$63,797**	**$246,606**	$55,759	$52,966	$52,821	$53,439	$214,985
Cost of sales	**31,324**	**29,825**	**32,479**	**32,022**	**125,650**	30,425	27,742	28,448	28,826	115,441
Gross profit	**28,560**	**29,479**	**31,142**	**31,775**	**120,956**	25,334	25,224	24,373	24,613	99,544
Cost and expenses	**19,652**	**19,529**	**20,953**	**23,810**	**83,944**	17,261	19,047	17,749	17,871	71,928
Merger and reorganization expenses	**—**	**—**	**—**	**2,600**	**2,600**	—	7,500	—	—	7,500
Loss on sale of leak detection business	**—**	**—**	**—**	**2,500**	**2,500**	—	—	—	—	—
Write-off of purchased in-process technology	**—**	**—**	**—**	**1,300**	**1,300**	—	—	—	—	—
Operating income (loss)	**8,908**	**9,950**	**10,189**	**1,565**	**30,612**	8,073	(1,323)	6,624	6,742	20,116
Interest (income) expense	**(116)**	**(420)**	**(372)**	**(876)**	**(1,784**	223	300	318	166	1,007
Income (loss) before income taxes	**9,024**	**10,370**	**10,561**	**2,441**	**32,396**	7,850	(1,623)	6,306	6,576	19,109
Income tax provision	**3,338**	**3,675**	**3,619**	**1,354**	**11,986**	1,828	1	1,932	1,975	5,736
Net income (loss)	**$ 5,686**	**$ 6,695**	**$ 6,942**	**$ 1,087**	**$ 20,410**	$ 6,022	$ (1,624)	$ 4,374	$ 4,601	$ 13,373
Net income (loss) per common share	**$ .33**	**$ .38**	**$ .40**	**$ .06**	**$ 1.17**	$ .38	$ (.10)	$ .27	$ .28	$ .83
Diluted net income (loss) per common share	**$ .32**	**$ .38**	**$ .39**	**$ .06**	**$ 1.15**	$ .37	$ (.10)	$ .27	$ .28	$ .82
Pro Forma Presentation:										
Income (loss) before income taxes	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**	$ 7,850	$ (1,623)	$ 6,306	$ 6,576	$ 19,109
Pro forma income tax provision (benefit)	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**	2,931	(626)	2,356	2,529	7,190
Pro forma net income (loss)	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**	$ 4,919	$ (997)	$ 3,950	$ 4,047	$ 11,919
Pro forma net income (loss) per common share	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**	$ .31	$ (.06)	$ .24	$ .25	$ .74
Pro forma diluted net income (loss) per common share	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**	$ .30	$ (.06)	$ .24	$ .24	$ .73
Weighted average shares outstanding	**17,040**	**17,438**	**17,474**	**17,565**	**17,381**	16,019	16,075	16,163	16,283	16,136
Diluted weighted average shares outstanding	**17,521**	**17,737**	**17,714**	**17,983**	**17,768**	16,242	16,336	16,369	16,634	16,396

**Restated from previously filed form 10Q due to the Ion Tech merger.*

A variety of factors influence the level of the Company's net sales in a particular quarter including economic conditions in the semiconductor, data storage and optical telecommunications industries, the timing of significant orders, shipment delays, specific feature requests by customers, the introduction of new products by the Company and its competitors, production and quality problems, changes in material costs, disruption in sources of supply, seasonal patterns of capital spending by customers, and other factors, many of which are beyond the Company's control. In addition, the Company derives a substantial portion of its revenues from the sale of products which have an average selling price in excess of $750,000. As a result, the timing of recognition of revenue from a single transaction could have a significant impact on the Company's net sales and operating results in any given quarter.

Overview

Veeco is a leader in the design, manufacture, marketing and servicing of a broad line of precision metrology and process equipment used to measure, test and manufacture microelectronic products for the data storage, semiconductor and optical telecommunications markets. Precision metrology equipment is primarily used to measure critical dimensions of thin film magnetic heads (TFMHs) and semiconductor devices. Process equipment is primarily used to etch and deposit materials in the manufacture of TFMHs and optical filters used in dense wavelength division multiplexing (DWDM), a technology that greatly expands the bandwidth (capacity) of existing fiber optic cables.

During the past several years, Veeco has strengthened both the process equipment product line and the metrology product line with strategic acquisitions. Veeco's consolidated financial condition and results of operations have been restated to reflect the mergers with Ion Tech, Digital and Wyko, as they have been accounted for as pooling of interests.

Results of Operations

The following table sets forth, for the periods indicated, the relationship (in percentages) of selected items of Veeco's consolidated statements of income to its total net sales:

	Year ended December 31,		
	1999	1998	1997
Net sales	**100.0%**	100.0%	100.0%
Cost of sales	**51.0**	53.7	50.8
Gross profit	**49.0**	46.3	49.2
Operating expenses:			
Research and development	**12.8**	13.0	11.2
Selling, general and administrative	**20.8**	20.8	19.7
Other expense (income) - net	**0.4**	(0.4)	(0.1)
Merger and reorganization expenses	**1.1**	3.5	1.0
Loss on sale of leak detection business	**1.0**	—	—
Write-off of purchased in-process technology	**0.5**	—	1.9
Total operating expenses	**36.6**	36.9	33.7
Operating income	**12.4**	9.4	15.5
Interest expense	**0.7**	0.8	0.6
Interest income	**(1.4)**	(0.3)	(0.5)
Income before income taxes	**13.1**	8.9	15.4
Income tax provision	**4.8**	2.7	3.5
Net income	**8.3%**	6.2%	11.9%

Years Ended December 31, 1999 and 1998

Net sales were $246.6 million for the year ended December 31, 1999, representing an increase of $31.6 million or 14.7%, when compared to the year ended December 31, 1998. Sales in the U.S., Europe, Japan and Asia Pacific, respectively, accounted for 45.7%, 16.6%, 20.7% and 15.6%, respectively, of the Company's net sales for the year ended December 31, 1999. Sales in the U.S. increased approximately 4.9%, while international sales included a 41.3% increase in Japan and a 77.3% increase in Asia Pacific from the comparable 1998 period. The increase in U.S. sales principally reflects increased process equipment sales to data storage customers and the addition of Ion Tech, which had a 251% increase in U.S. sales over its prior year period. The increase in sales in Japan and Asia Pacific principally reflects increased process equipment sales to data storage customers along with increased metrology sales in Asia Pacific for data storage and semiconductor applications. During the last 2 years, the Company has established subsidiaries in these regions which provide direct Veeco sales and service. The Company believes that there will continue to be quarter to quarter variations in the geographic concentration of sales.

Metrology sales of $112.2 million for the year ended December 31, 1999 decreased by $14.0 million or 11.1% from the comparable 1998 period, principally reflecting decreased purchases of metrology products in data storage applications. Process equipment sales of $117.4 million for the year ended December 31, 1999, increased by $48.3 million or 69.9% from the comparable 1998 period, as sales improved across all product lines related to data storage. The Company believes that the shift in data storage sales to process equipment from metrology products in 1999 is a result of customers focusing on GMR product qualifications rather than yield improvement. Additionally, 25.4% of the increase related to strong Ion Tech sales related to the optical telecommunications industry. Industrial measurement sales for the year ended December 31, 1999, of $17.1 million decreased 13.5% from the comparable 1998 period.

Veeco received $257.2 million of orders for the year ended December 31, 1999, representing an 11.7% increase from $230.3 million of orders in the comparable 1998 period. Metrology orders decreased 14.8% to $111.9 million reflecting the reduction in orders for inspection equipment for data storage. Process equipment orders increased 62.4% to $131.0 million as a result of an increase in orders of ion beam etch products and strong orders for Ion Tech's DWDM related equipment. Industrial measurement orders decreased 21.7% to $14.3 million as a result of a reduction in orders of industrial leak detection equipment. The book-to-bill ratio for the year ended December 31, 1999 was 1.04 to 1.

Gross profit for the year ended December 31, 1999 of $121.0 million represents an increase of $21.4 million from the comparable 1998 period. Gross profit as a percentage of net sales increased to 49.0% for 1999 from 46.3% for 1998. Process equipment gross margin improved to 44.9% in 1999 compared to 39.6% in 1998 principally as a result of increased sales volume. Metrology gross margin improved to 56.0% in 1999 compared to 51.2% in 1998 in spite of the volume decline noted above. The metrology margin improvement is due to favorable mix and pricing in both the atomic force microscope and optical inspection product lines.

Research and development expense for the year ended December 31, 1999 of $31.5 million increased by $3.6 million or 12.8% over the comparable period of 1998, as the Company increased its investment in new product development, primarily for the process equipment product line.

Selling, general and administrative expenses of $51.4 million for the year ended December 31, 1999 increased $6.7 million or 14.9%. As a percentage of sales, selling, general and administrative expenses represent 20.8% for both the years ended December 31, 1999 and 1998. The 1999 increase is attributable to an increase in international sales and service personnel and locations. In 1999, the Company accelerated the transition from representative and distributor organizations to direct Veeco sales and service capability in Japan and Asia Pacific.

During 1999, the Company recorded charges of $2.6 million and $2.5 million before taxes related to the merger with Ion Tech and the sale of the leak detection business, respectively. In conjunction with the OptiMag acquisition, the Company recorded a $1.3 million write-off of the fair values of acquired in-process research and development ("R & D") projects that had not reached technological feasibility and had no alternative uses. On the date of acquisition, OptiMag's in-process R & D value was comprised of an Oasis version 1.0 hardware and software component development program that was expected to reach completion in March 2000. This program includes the introduction of certain new technologies. At the acquisition date, OptiMag's R & D program was approximately 84% complete. The total continuing R & D commitment to complete the project is currently expected to be approximately $55,000 in 2000. On the acquisition date, certain projects within OptiMag's R & D programs were expected, if successful, to begin to bear results in 2001. These estimates are subject to change, given the uncertainties of the development process, and no assurance can be given that deviations from these estimates will not occur. Additionally, this project will require maintenance R & D after it has reached a state of technological and commercial feasibility. Management believes the Company is positioned to complete the R & D program. However, there is risk associated with the completion of the project and there is no assurance that the project will meet with either technological or commercial success.

During 1998, the Company recorded a $7.5 million pre-tax charge for merger and reorganization expenses principally related to the merger with Digital, of which approximately $1.7 million represented severance and other costs and an estimated loss on a future sublease of an abandoned office and manufacturing facility. At December 31, 1999, approximately $35,000 remained accrued for these expenses. During 1999, the Company incurred approximately $900,000 of costs that were charged against the accrual.

Income taxes for the year ended December 31, 1999 amounted to $12.0 million or 37% of income before income taxes, as compared with $5.7 million or 30% of income before income taxes in 1998. The lower effective tax rate in 1998 reflects Digital's "S" Corporation tax status for five months in 1998 (through the merger date). As an "S" Corporation, Digital was not subject to federal income tax at the corporation level.

Years Ended December 31, 1998 and 1997

Net sales were $215.0 million for the year ended December 31, 1998, representing a decrease of $8.4 million or 3.8%, when compared to the year ended December 31, 1997. Decrease in sales reflects a 24.3% decrease in process equipment sales partially offset by an 11.9% increase in metrology sales. Sales in the U.S., Europe, Japan and Asia Pacific, respectively, accounted for 50.0%, 19.1%, 16.8% and 10.1% respectively, of the Company's net sales for the year ended December 31, 1998. Sales in the U.S. decreased approximately 15.6%, while international sales included a 75.6% increase in Europe, a 17.2% increase in Japan, and a 43.7% decrease in Asia Pacific from the comparable 1997 period. The decrease in U.S. sales principally reflects reduced process equipment sales to data storage customers. The increase in sales in Europe and in Japan principally reflects increased process equipment sales to data storage customers along with increased metrology sales for data storage and semiconductor applications. The decrease in sales in Asia Pacific is due to a sales reduction in all product lines resulting from the economic downturn in that region. The Company believes that there will continue to be quarter to quarter variations in the geographic concentration of sales.

Metrology sales of $126.2 million for the year ended December 31, 1998 increased by $13.4 million or 11.9% over the comparable 1997 period principally reflecting increased purchases of metrology products for in-line inspection of critical steps in data storage applications. Process equipment sales of $69.1 million for the year ended December 31, 1998 decreased by $22.1 million or 24.3% from the comparable 1997 period, as sales of ion beam etch products declined, partially offset by increased sales of new deposition products associated with the transition to magnetoresistive (MR) and giant magnetoresistive (GMR) thin film magnetic heads (TFMHs). Ion Beam etch sales continue to be negatively affected by excess capacity in the data storage industry. Industrial measurement sales for the year ended December 31, 1998 of $19.7 million increased 1.5% over the comparable 1997 period.

Veeco received $230.3 million of orders for the year ended December 31, 1998, representing a 1.8% increase from $226.2 million of orders in the comparable 1997 period. Metrology orders increased 12.4% to $131.4 million reflecting increased purchases of in-line metrology products for production applications such as PTR (pole tip recession) measurements for new MR and GMR thin film magnetic heads. Process equipment orders decreased 5.1% to $80.7 million as a result of a reduction in orders of ion beam etch products, reflecting weak data storage market conditions, including industry-wide overcapacity. Industrial measurement orders decreased 25.0% to $18.3 million as a result of a reduction in orders of industrial leak detection equipment. The book to bill ratio was 1.07 to 1 for the year ended December 31, 1998.

Gross profit for the year ended December 31, 1998 of $99.5 million represents a decrease of $10.4 million from the comparable 1997 period. Gross profit as a percentage of net sales decreased to 46.3% for 1998 from 49.2% for 1997, principally due to a decrease in gross margin for the process equipment product line. This decline resulted from lower sales volume, increased field support, warranty, facility and information system costs and the increase in sales of new deposition products with lower initial gross margins than established ion beam etch products. The metrology product line experienced higher field service and warranty costs as it expanded sales of production related inspection tools to data storage customers at a variety of international locations.

Research and development expense for the year ended December 31, 1998 of $28.0 million increased by $3.0 million or 11.8% over the comparable period of 1997, as the Company continues to invest in new product development in each of its product lines with particular emphasis on in-line inspection tools in the metrology product line and deposition tools for its process equipment line.

Selling, general and administrative expenses of $44.8 million for the year ended December 31, 1998 remained relatively flat when compared to 1997.

As described in Note 2 to the Company's Consolidated Financial Statements, for the year ended December 31, 1998, the Company recorded a $7.5 million pre-tax charge for merger and reorganization expenses principally related to the merger with Digital during such period. During the year ended December 31, 1997, the Company recorded a $4.2 million write-off for the fair values of acquired in-process engineering and development projects that had not reached technological feasibility and had no future alternative uses, and a $2.3 million charge related to the merger with Wyko.

Income taxes for the year ended December 31, 1998 amounted to $5.7 million or 30% of income before income taxes as compared to $7.8 million or 22.6% of income before income taxes for the same period of 1997. These effective tax rates reflect Digital's "S" Corporation status for five months in 1998 (through the merger date) compared to a full year in 1997. As an "S" Corporation, Digital was not subject to federal income taxes at the corporation level.

Liquidity and Capital Resources

Net cash provided by operations totaled $14.0 million in 1999 compared to $10.4 million in 1998 and $17.9 million in 1997. Cash provided by operations in 1999 resulted principally from (i) net income plus non-cash charges for depreciation and amortization, loss on the sale of the leak detection business and write-off of purchased in-process technology aggregating $30.0 million plus an increase of accrued expenses and other current liabilities of $6.8 million. These items were partially offset by an increase in accounts receivable, inventories and a deferred income tax benefit of $14.1 million, $4.7 million and $3.3 million, respectively. The increase in accrued expenses and other current liabilities is principally due to an increase in income taxes payable. Accounts receivable increased due to increased sales volume. The increase in inventories is attributable to an increase in process equipment orders as well as certain shipments being delayed by customers at December 31, 1999. Net cash from operations in 1998 resulted from (i) net income plus non-cash charges for depreciation and amortization and certain merger and reorganization charges of $21.9 million plus (ii) increases of accrued expenses and other current liabilities, and other net operating assets and liabilities of $2.4 million and $0.7 million, respectively, as well as a decrease in accounts receivable of $2.3 million. These items were partially offset by increases in inventories and a deferred income tax benefit of $10.1 million and $1.1 million, respectively and a decrease in accounts payable of $5.8 million. The increase in inventories was attributable to an increase in inventory at the Company's domestic manufacturing and international sales locations to support new product introductions. Net cash from operations in 1997 resulted from (i) net income plus non-cash charges for depreciation and amortization and the write-off of purchased in-process technology of $33.3 million plus (ii) increases of accounts payable, accrued expenses and other current liabilities, and other net operating assets and liabilities of $8.8 million, $5.0 million and $0.6 million, respectively. These items were partially offset by increases in accounts receivable, inventories and a deferred income tax benefit of $13.0 million, $15.1 million and $1.7 million, respectively. The increases in accounts receivable, inventories, accounts payable and accrued expenses were attributable to the increased 1997 sales volume.

Net cash used in investing activities in 1999 totaled $61.6 million compared to $8.3 million in 1998 and $25.6 million in 1997. Cash used in 1999 consisted of net purchases of short-term investments of $50.9 million, $3.3 million for the purchase of OptiMag's net assets and $10.5 million of capital expenditures, partially offset by $3.1 million of proceeds from sale of property, plant and equipment. The net purchases of short-term investments resulted from the proceeds of the Company's public offering in February, 1999. Net cash used for investing activities in 1998 primarily related to capital expenditures of $8.3 million. Net cash used for investing activities in 1997 primarily related to the MRC acquisition of $4.4 million and capital expenditures of $21.2 million. Capital expenditures in 1997 included the purchase of a 100,000 square foot building in California for $9.7 million for the Company's metrology business, as well as for manufacturing facilities, laboratory and test equipment and business system upgrades.

Net cash provided by financing activities totaled $53.2 million in 1999 compared to $1.5 million in 1998 and $2.1 million in 1997. The generation of cash in 1999 primarily resulted from a public offering by the Company in February, 1999, pursuant to which 1,000,000 shares of Common Stock, par value $.01 per share, were issued and sold for $52.00 per share, less underwriting discounts and commissions of $2.34 per share. The Company is using the net proceeds of the offering (approximately $49.0 million) for capital expenditures including clean manufacturing areas and expanded customer application laboratories and for working capital and general corporate purposes, including potential acquisitions.

1999 cash provided by financing activities also included approximately $6.5 million of proceeds from exercise of stock options and stock issuances under the Company's employee stock purchase plan, partially offset by repayments of long-term debt. The generation of cash in 1998 resulted from proceeds from stock issuances and long-term debt, partially offset by distributions to former Digital shareholders of $2.0 million. The generation of cash in 1997 resulted from proceeds from the sale of Common Stock and proceeds from long-term debt offset by distributions to former Digital shareholders of $10.0 million.

The Company has an unsecured $40.0 million Credit Facility (the "Credit Facility") which may be used for working capital, acquisitions and general corporate purposes. The Credit Facility bears interest at the prime rate of the lending banks, but is adjustable to a maximum rate of ¼% above the prime rate in the event the Company's ratio of debt to cash flow exceeds a defined ratio. A LIBOR-based interest rate option is also provided. The Credit Facility expires December 31, 2001, but under certain conditions is convertible into a term loan, which would amortize quarterly through December 31, 2005. As of December 31, 1999, there were no amounts outstanding under the Credit Facility.

The Company will be required to repay promissory notes owed to former stockholders of Digital in the aggregate principal amount of $8,000,000 when they become due in March 2000. The notes bear interest at an annual rate of 7.21%.

In connection with the OptiMag acquisition, the Company will be required to pay consideration to the former shareholders of OptiMag based upon both future sales and the future appraisal value of OptiMag. The consideration will be calculated based upon a predetermined percentage of OptiMag's sales for the period from January 1, 2000 to December 31, 2000, as well as the appraised fair market value of OptiMag, adjusted for certain items as of December 31, 2000.

The Company believes that existing cash balances together with cash generated from operations and amounts available under the Credit Facility will be sufficient to meet the Company's projected working capital and other cash flow requirements (including the payments described in the preceding paragraphs) through 2000.

Year 2000

During the year, the Company completed its efforts to minimize the risk of disruption from the Year 2000 Issue. The Year 2000 Issue is the result of computer programs using two digits rather than four to define the applicable year. Total expenditures related to the Year 2000 Issue were approximately $0.3 million of which approximately $0.2 million was capitalized. The Company has experienced no significant problems related to the Year 2000 issue.

Risk Factors That May Impact Future Results

In addition to the other information set forth herein, the following risk factors should be carefully considered by shareholders of and by potential investors in the Company.

Dependence on Microelectronics Industry; Cyclicality of Data Storage, Semiconductor and Optical Telecommunications Industries. Veeco's business depends in large part upon the capital expenditures of data storage, semiconductor and optical telecommunications manufacturers which accounted for the following percentages of the Company's net sales for the periods indicated:

	Year ended December 31,		
	1999	1998	1997
Data Storage	**54.8%**	52.8%	51.6%
Semiconductor	**12.1%**	18.6%	19.3%
Optical Telecommunications	**8.3%**	3.8%	3.0%

The data storage, semiconductor and optical telecommunications industries have been characterized by cyclicality. These industries have experienced significant economic downturns at various times in the last decade, characterized by diminished product demand, accelerated erosion of average selling prices and production overcapacity. A downturn in the businesses of one or more of the Company's customers could have a material adverse effect on the Company's results of operations or financial position.

Fluctuations in Quarterly Operating Results. Veeco's quarterly results have fluctuated significantly in the past and we expect this trend to continue. Factors which affect quarterly results include:

- specific economic conditions in the data storage, semiconductor, and optical telecommunications industries,
- the timing of significant orders,
- shipment delays,
- specific feature requests by customers,
- the introduction of new products by Veeco and its competitors,
- production and quality problems,
- changes in the cost of materials,
- disruption in sources of supply,
- seasonal patterns of capital spending by customers,
- a downturn in the market for personal computers or other products incorporating data storage technology and semiconductors, and
- market acceptance of Veeco's systems and Veeco's customers' products.

Many of these factors are beyond Veeco's control. If Veeco's net sales levels in a particular quarter do not meet expectations, Veeco's operating results will be adversely affected, which may have an adverse impact on the Company's Common Stock price.

Rapid Technological Change; Importance of Timely Product Introduction. The data storage, semiconductor and optical telecommunications manufacturing industries are subject to rapid technological change and new product introductions and enhancements. Veeco's ability to remain competitive will depend in part upon the Company's ability to develop in a timely and cost effective manner new and enhanced systems at competitive prices and to accurately predict technology transitions. In addition, new product introductions or enhancements by Veeco's competitors could cause a decline in sales or loss of market acceptance of Veeco's existing products. Increased competitive pressure could also lead to intensified price competition resulting in lower margins, which could materially and adversely affect the Company's business, financial condition and results of operations. The Company's success in developing, introducing and selling new and enhanced systems depends upon a variety of factors, including:

- Veeco's product offerings,
- timely and efficient completion of product design and development,
- timely and efficient implementation of manufacturing processes,
- effective sales, service and marketing, and
- product performance in the field.

Because new product development commitments must be made well in advance of sales, new product decisions must anticipate both the future demand for the products under development and the equipment required to produce such products. Veeco cannot be certain that it will be successful in selecting, developing, manufacturing and marketing new products or in enhancing existing products.

Limited Sales Backlog. Veeco's backlog at the beginning of a quarter typically does not include all sales required to achieve Veeco's sales objective for that quarter. Moreover, all customer purchase orders are subject to cancellation or rescheduling by the customer, generally with limited or no penalties. Therefore, backlog at any particular date is not necessarily representative of actual sales for any succeeding period. The Company's net sales and operating results for a quarter may depend upon orders obtained for systems to be shipped in the same quarter that the order is received. In addition, Veeco derives a substantial portion of its net sales in any fiscal period from the sale of a relatively small number of high-priced systems. As a result, the timing of recognition of revenue for a single transaction could have a material adverse effect on Veeco's sales and operating results. Veeco's business and financial results for a particular period could be materially and adversely affected if an anticipated order for even one system is not received in time to permit shipping during the period.

Highly Competitive Industry. The industries in which Veeco operates are intensely competitive. Established companies, both domestic and foreign, compete with each of Veeco's product lines. Many of Veeco's competitors have greater financial, engineering, manufacturing and marketing resources than the Company. A substantial investment is required by customers to install and integrate capital equipment into a production line. As a result, once a manufacturer has selected a particular vendor's capital equipment, Veeco believes that the manufacturer generally relies upon that equipment for the specific production line application and frequently will attempt to consolidate its other capital equipment requirements with the same vendor. Accordingly, if a particular customer selects a competitor's capital equipment, the Company expects to experience difficulty in selling to that customer for a significant period of time. The Company believes that Veeco's ability to compete successfully depends on a number of factors both within and outside of Veeco's control, including:

- price,
- product quality,
- breadth of product line,
- system performance,
- cost of ownership,
- global technical service and support, and
- success in developing or otherwise introducing new products.

Veeco cannot be certain that it will be able to compete successfully in the future.

Dependence on Principal Customers; Industry Concentration. Veeco relies on its principal customers for a significant portion of its sales. Veeco's principal customers include Seagate Technology, Inc. ("Seagate"), International Business Machines Corporation ("IBM"), and Read-Rite Corp. ("Read-Rite"). The following table sets forth the percentage of Veeco's net sales to such principal customers for the periods indicated:

	Year Ended December 31,		
	1999	1998	1997
Seagate	**14%**	10%	14%
IBM	**10%**	17%	6%
Read-Rite	**7%**	7%	11%
Next five top customers	**14%**	11%	12%

The loss of a major customer, or of a significant portion of the sales to a major customer, could adversely affect Veeco's results of operations. Veeco's ability to increase sales in the future will depend in part upon Veeco's ability to obtain orders from new customers. The Company cannot be certain that it will be able to do so. In addition, a relatively small number of large manufacturers, many of whom are Veeco's customers, dominate the data storage industry, the semiconductor industry and the optical telecommunications industry. If any of these large manufacturers discontinues its relationship with Veeco or suffers economic setbacks, Veeco's results of operations could be materially and adversely affected.

Quantitative and Qualitative Disclosure about Market Risk

Market Risk

The principal market risks (i.e. the risk of loss arising from adverse changes in market rates and prices) to which the Company is exposed are:

- interest rates on debt and short-term investment portfolios, and
- foreign exchange rates, generating translation and transaction gains and losses.

Interest Rates

Veeco centrally manages its debt and investment portfolios considering investment opportunities and risks, tax consequences and overall financing strategies. Veeco's investment portfolios consist of cash equivalents, commercial paper, municipal bonds, floating rate bonds, obligations of U.S. Government agencies and corporate bonds. These investments are considered available-for-sale securities. Accordingly, the carrying amounts approximate market value. Assuming year-end 1999 variable debt and investment levels, a one-point change in interest rates would not have a material impact on net interest expense.

Foreign Operations

Operating in international markets involves exposure to movements in currency exchange rates, which are volatile at times. The economic impact of currency exchange rate movements on Veeco is complex because such changes are often linked to variability in real growth, inflation, interest rates, governmental actions and other factors. These changes, if material, could cause the Company to adjust its financing and operating strategies. Consequently, isolating the effect of changes in currency does not incorporate these other important economic factors.

Veeco's net sales to foreign customers represented approximately 54.3% of Veeco's total net sales in 1999, 50.8% in 1998 and 42.9% in 1997. The Company expects net sales to foreign customers will continue to represent a large percentage of Veeco's total net sales. Veeco's net sales denominated in foreign currencies represented approximately 11.5% of Veeco's total net sales in 1999, 12.4% in 1998 and 6.1% in 1997. The Company generally has not engaged in foreign currency hedging transactions. The aggregate foreign exchange gains and (losses) included in determining consolidated results of operations were ($421,000), $774,000 and ($34,000) in 1999, 1998, and 1997, respectively.

Changes in foreign currency exchange rates which would have the largest impact on translating Veeco's international operating profit, include the German mark and Japanese yen. The Company estimates that a 10% change in foreign exchange rates would impact reported operating profit by approximately $1.1 million. The Company believes that this quantitative measure has inherent limitations because, as discussed in the first paragraph of this section, it does not take into account any governmental actions or changes in either customer purchasing patterns or our financing and operating strategies.

Consolidated Balance Sheets
(Dollars in thousands)

	December 31, 1999	1998
Assets		
Current assets:		
Cash and cash equivalents	**$ 29,418**	$ 23,493
Short-term investments	**50,888**	—
Accounts receivable, less allowance for doubtful accounts of $1,516 in 1999 and $1,725 in 1998	**58,393**	43,976
Inventories	**56,689**	56,369
Prepaid expenses and other current assets	**6,111**	1,492
Deferred income taxes	**9,544**	5,944
Total current assets	**211,043**	131,274
Property, plant and equipment at cost, net	**41,924**	39,313
Excess of cost over net assets acquired, less accumulated amortization of $1,301 in 1999 and $1,171 in 1998	**5,509**	4,187
Other assets, net	**6,803**	4,457
Total assets	**$265,279**	$179,231
Liabilities and shareholders' equity		
Current liabilities:		
Accounts payable	**$ 16,444**	$ 15,843
Accrued expenses	**28,911**	26,249
Income taxes payable	**7,580**	1,325
Current portion of long-term debt	**235**	784
Notes payable to former Digital shareholders	**8,000**	—
Total current liabilities	**61,170**	44,201
Deferred income taxes	**2,727**	937
Long-term debt	**8,759**	10,013
Notes payable to former Digital shareholders	**—**	8,000
Other liabilities	**272**	341
Shareholders' equity:		
Preferred stock, 500,000 shares authorized; no shares issued and outstanding	**—**	—
Common stock, 25,000,000 shares authorized; 17,627,701 and 16,350,467 shares issued and outstanding in 1999 and 1998, respectively	**176**	163
Additional paid-in capital	**120,245**	62,936
Retained earnings	**72,492**	52,180
Other comprehensive income	**(562)**	460
Total shareholders' equity	**192,351**	115,739
Total liabilities and shareholders' equity	**$265,279**	$179,231

See accompanying notes.

Consolidated Statements of Income

(In thousands, except per share data)

	Year ended December 31, 1999	1998	1997
Net sales	**$246,606**	$214,985	$223,410
Cost of sales	**125,650**	115,441	113,487
Gross profit	**120,956**	99,544	109,923
Costs and expenses:			
Research and development expense	**31,545**	27,976	25,016
Selling, general and administrative expense	**51,434**	44,756	44,054
Other expense (income)–net	**965**	(804)	(115)
Merger and reorganization expenses	**2,600**	7,500	2,250
Loss on sale of leak detection business	**2,500**	—	—
Write-off of purchased in-process technology	**1,300**	—	4,200
	90,344	79,428	75,405
Operating income	**30,612**	20,116	34,518
Interest expense	**1,616**	1,594	1,220
Interest income	**(3,400)**	(587)	(1,098)
Income before income taxes	**32,396**	19,109	34,396
Income tax provision	**11,986**	5,736	7,780
Net income	**$ 20,410**	$ 13,373	$ 26,616
Earnings per common share:			
Net income per common share	**$ 1.17**	$ .83	$ 1.67
Diluted net income per common share	**$ 1.15**	$ .82	$ 1.62
Pro forma income tax presentation:			
Income before income taxes		$ 19,109	$ 34,396
Pro forma income tax provision		7,190	12,987
Pro forma net income		$ 11,919	$ 21,409
Pro forma earnings per common share:			
Pro forma net income per common share		$ .74	$ 1.35
Pro forma diluted net income per common share		$ .73	$ 1.30
Weighted average shares outstanding	**17,381**	16,136	15,901
Diluted weighted average shares outstanding	**17,768**	16,396	16,417

See accompanying notes.

Consolidated Statements of Shareholders' Equity

(Dollars in thousands)

	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Retained Earnings	Other Comprehensive Income	Total	Comprehensive Income
Balance at December 31, 1996	15,792,993	$158	$ 47,809	$ 24,893	$ 665	$ 73,525	—
Exercise of stock options and stock issuances under stock purchase plan	192,163	2	2,068	—	—	2,070	—
Sale of stock	—	—	2,933	—	—	2,933	—
Stock option income tax benefit	—	—	1,790	—	—	1,790	—
Translation adjustment	—	—	—	—	(631)	(631)	$ (631)
Net income	—	—	—	26,616	—	26,616	26,616
Distributions to former shareholders of Digital and Ion Tech	—	—	—	(10,156)	—	(10,156)	—
Balance at December 31, 1997	15,985,156	160	54,600	41,353	34	96,147	$25,985
Exercise of stock options and stock issuances under stock purchase plan	365,311	3	3,562	—	—	3,565	—
Translation adjustment	—	—	—	—	426	426	$ 426
Stock option income tax benefit	—	—	3,189	—	—	3,189	—
Non-cash compensation charge	—	—	1,585	—	—	1,585	—
Net income	—	—	—	13,373	—	13,373	13,373
Adjustment to reflect change in year-end for Ion Tech	—	—	—	(412)	—	(412)	—
Distributions to former shareholders of Digital and Ion Tech	—	—	—	(2,134)	—	(2,134)	—
Balance at December 31, 1998	16,350,467	163	62,936	52,180	460	115,739	$13,799
Exercise of stock options and stock issuances under stock purchase plan	**277,234**	**3**	**6,548**	**—**	**—**	**6,551**	**—**
Net proceeds from public offering	**1,000,000**	**10**	**48,850**	**—**	**—**	**48,860**	**—**
Translation adjustment	**—**	**—**	**—**	**—**	**(1,008)**	**(1,008)**	**$ (1,008)**
Stock option income tax benefit	**—**	**—**	**1,911**	**—**	**—**	**1,911**	**—**
Unrealized loss on available-for-sale securities	**—**	**—**	**—**	**—**	**(14)**	**(14)**	**(14)**
Net income	**—**	**—**	**—**	**20,410**	**—**	**20,410**	**20,410**
Distributions to former shareholders of Ion Tech	**—**	**—**	**—**	**(98)**	**—**	**(98)**	**—**
Balance at December 31, 1999	**17,627,701**	**$176**	**$120,245**	**$ 72,492**	**$ (562)**	**$192,351**	**$19,388**

See accompanying notes.

Consolidated Statements of Cash Flows

(Dollars in thousands)

	Year ended December 31,		
	1999	1998	1997
Operating activities			
Net income	**$ 20,410**	$ 13,373	$ 26,616
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	**5,830**	5,012	2,484
Deferred income taxes	**(3,263)**	(1,076)	(1,691)
Non-cash merger and reorganization expenses	**—**	3,544	—
Loss on sale of leak detection business	**2,500**	—	—
Write-off of purchased in-process technology	**1,300**	—	4,200
Other	**(664)**	—	—
Changes in operating assets and liabilities:			
Accounts receivable	**(14,109)**	2,315	(12,974)
Inventories	**(4,702)**	(10,064)	(15,087)
Accounts payable	**458**	(5,757)	8,779
Accrued expenses and other current liabilities	**6,773**	2,390	4,973
Other, net	**(579)**	702	610
Net cash provided by operating activities	**13,954**	10,439	17,910
Investing activities			
Capital expenditures	**(10,482)**	(8,310)	(21,221)
Proceeds from sale of property, plant and equipment	**3,129**	—	—
Net assets of business acquired	**(3,300)**	—	(4,375)
Purchases of available-for-sale securities	**(395,949)**	—	—
Sales of available-for-sale securities	**29,407**	—	—
Maturities of available-for-sale securities	**315,631**	—	—
Net cash used in investing activities	**(61,564)**	(8,310)	(25,596)
Financing activities			
Proceeds from stock issuance	**55,411**	3,565	5,003
Proceeds from long-term debt	**—**	1,001	8,116
Repayments of long-term debt	**(2,076)**	(904)	(836)
Distributions to former shareholders of Digital and Ion Tech	**(98)**	(2,134)	(10,156)
Other	**—**	—	(47)
Net cash provided by financing activities	**53,237**	1,528	2,080
Effect of exchange rate changes on cash and cash equivalents	**298**	(989)	(209)
Net increase (decrease) in cash and cash equivalents	**5,925**	2,668	(5,815)
Cash and cash equivalents at beginning of year	**23,493**	20,825	26,640
Cash and cash equivalents at end of year	**$ 29,418**	$ 23,493	$ 20,825

See accompanying notes.

1. Significant Accounting Policies

Business

Veeco Instruments Inc. ("Veeco" or the "Company") designs, manufactures, markets and services a broad line of equipment primarily used by manufacturers in the data storage, optical telecommunications and semiconductor industries. These industries help create a wide range of information age products for today and tomorrow—such as personal computers, network servers, fiber optic networks, digital cameras, TV set-top boxes and personal digital assistants. The Company's process equipment products precisely deposit or etch (remove) various materials in the manufacturing of advanced thin film magnetic heads for the data storage industry. With the acquisition of Ion Tech in 1999, Veeco became a supplier of ion beam deposition equipment to the optical filter market (dense wavelength division multiplexing or "DWDM"). The DWDM optical filters are used to expand the capacity of fiber optic networks. Veeco's broad line of leading edge technology allows customers to improve time to market of next generation products. Veeco's metrology equipment is used to provide critical surface measurements on thin film magnetic heads and disks used in hard drives, as well as on semiconductor devices and in research applications. This equipment allows customers to monitor their products throughout the manufacturing process in order to improve yields, reduce costs and improve product quality.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Principles of Consolidation

The consolidated financial statements include the accounts of Veeco and its subsidiaries. Intercompany items and transactions have been eliminated in consolidation.

Revenue

Revenue is recognized when title passes to the customer, generally upon shipment. Service and maintenance contract revenues are recorded as deferred revenue, which is included in other accrued expenses, and recognized as revenue on a straight-line basis over the service period of the related contract. The Company provides for warranty costs and the estimated costs of fulfilling its installation obligations at the time the related revenue is recorded.

Cash Flows

The Company considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. Interest paid during 1999, 1998 and 1997 was approximately $1,603,000, $1,550,000 and $1,230,000, respectively. Income taxes paid in 1999, 1998 and 1997 were approximately $5,848,000, $4,884,000 and $5,451,000, respectively.

Inventories

Inventories are stated at the lower of cost (principally first-in, first-out method) or market.

Depreciable Assets

Depreciation and amortization are generally computed by the straight-line method and are charged against income over the estimated useful lives of depreciable assets.

Long-Lived Assets

Excess of cost of investment over net assets acquired is being amortized on a straight-line basis over periods ranging from 10 to 40 years. Other intangible assets, included within other assets on the balance sheet, consist of purchased technology, patents, assembled workforce, trademarks, covenants not-to-compete, software licenses and deferred finance costs of $5,666,000 and $2,126,000, which are net of accumulated amortization of $1,348,000 and $1,474,000 at December 31, 1999 and 1998, respectively. Other intangible assets are amortized over periods ranging from 2 to 17 years.

The carrying values of intangible and other long-lived assets are periodically reviewed to determine if any impairment indicators are present. If it is determined that such indicators are present and the review indicates that the assets will not be fully recoverable, based on undiscounted estimated cash flows over the remaining amortization and depreciation period, their carrying values are reduced to estimated fair value. Impairment indicators include, among other conditions, cash flow deficits, an historic or anticipated decline in revenue or operating profit, adverse legal or regulatory developments, accumulation of costs significantly in excess of amounts originally expected to acquire the asset and a material decrease in the fair value of some or all of the assets. Assets are grouped at the lowest level for which there are identifiable cash flows that are largely independent of the cash flows generated by other asset groups. No such impairment exists at December 31, 1999.

Environmental Compliance and Remediation

Environmental compliance costs include ongoing maintenance, monitoring and similar costs. Such costs are expensed as incurred. Environmental remediation costs are accrued when environmental assessments and/or remedial efforts are probable and the cost can be reasonably estimated.

Foreign Operations

Foreign currency denominated assets and liabilities are translated into U.S. dollars at the exchange rates existing at the balance sheet date. Resulting translation adjustments due to fluctuations in the exchange rates are recorded as a separate component of shareholders' equity. Income and expense items are translated at the average exchange rates during the respective periods.

Research and Development Costs

Research and development costs are charged to expense as incurred and include expenses for development of new technology and the transition of the technology into new products or services.

Advertising and Promotional Expense

The cost of advertising is expensed as of the first showing. The Company incurred $4,102,000, $4,052,000 and $4,738,000 in advertising costs during 1999, 1998 and 1997, respectively.

Stock-Based Compensation

The Company accounts for its stock-based compensation plans in accordance with Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" (APB 25) and related Interpretations. Under APB 25, because the exercise price of the Company's employee stock options is set equal to the market price of the underlying stock on the date of grant, no compensation expense is recognized.

Fair Value of Financial Instruments

The carrying amounts of the Company's financial instruments, including cash and cash equivalents, short-term investments, accounts receivable, accounts payable and accrued expenses approximate fair value due to their short maturities.

The fair values of the Company's debt, including current maturities, are estimated using discounted cash flow analyses, based on the estimated current incremental borrowing rates for similar types of securities. The carrying amount of the Company's debt at December 31, 1999 and 1998 approximates its fair value.

Earnings Per Share

The following table sets forth the reconciliation of weighted average shares outstanding and diluted weighted average shares outstanding:

(In thousands)	**1999**	1998	1997
Weighted average shares outstanding	**17,381**	16,136	15,901
Dilutive effect of stock options	**387**	260	516
Diluted weighted average shares outstanding	**17,768**	16,396	16,417

Reclassifications

Certain amounts in the 1998 and 1997 financial statements have been reclassified to conform with the 1999 presentation.

2. Business Combinations and Basis of Presentation

Ion Tech, Inc.

On November 4, 1999, Ion Tech, Inc. and an affiliate (collectively, "Ion Tech"), a supplier of ion beam deposition systems merged with and into subsidiaries of Veeco. The merger was accounted for as a pooling of interests and, accordingly, historical financial data has been restated to include Ion Tech data. Under the merger, Ion Tech shareholders received 1,509,437 shares of Veeco Common Stock. Merger expenses of approximately $2,600,000 pertaining to investment banking, legal fees and other one-time transaction costs were charged to operating expenses during the year ended December 31, 1999.

Prior to the merger, Ion Tech's fiscal year end was June 30. In connection with the merger, the financial results of Ion Tech were recast for 1998 to conform to Veeco's December 31 year end. For the year ended 1997, historical results include Ion Tech's fiscal year ended June 30, 1998 results, thus resulting in six months of 1998 activity included in the 1997 results of operations. The following describes the adjustment to retained earnings in 1998 from changing the fiscal year end of Ion Tech (in thousands):

Revenues from January 1, 1998 to June 30, 1998	$3,919
Expenses from January 1, 1998 to June 30, 1998	3,447
Net income	472
Distributions to shareholders	60
Adjustment to retained earnings	$ 412

Digital Instruments, Inc.

On May 29, 1998, Veeco merged with Digital Instruments, Inc. ("Digital"), a leader in scanning probe/atomic force microscopy (SPM/AFM). Under the merger, Digital shareholders received 5,583,725 shares of Veeco Common Stock. The merger was accounted for as a pooling of interests and, accordingly, historical financial data has been restated to include Digital data. Merger expenses were comprised of transaction fees and expenses of $3,300,000 and a $1,585,000 non-cash compensation charge related to stock issued in accordance with a pre-existing agreement with a key Digital employee. Reorganization expenses, principally related to the Digital merger, consisted of $509,000 for severance costs, $750,000 for an estimated loss on a future sublease of an abandoned office and manufacturing facility, $887,000 for write-downs of long-lived assets held for sale or disposal and $469,000 for other costs. The Company implemented its reorganization plan in an effort to integrate Digital into the Company, consolidate manufacturing facilities, terminate its marketing and distribution agreements for a metrology product which competed directly with Digital, and reduce other operating expenses. The severance costs covered 13 management and manufacturing employees located in Santa Barbara, California, and Plainview and Orangeburg, New York in the Metrology and Process Equipment segments, respectively. The sublease loss covered an office and manufacturing facility in Santa Barbara, California. Charges associated with the sublease loss will be paid over the remaining life of the lease. The write-down of long-lived assets, to estimated net realizable value, related primarily to three SXM atomic force microscopes previously used for demonstration and testing purposes in the Metrology segment. Termination benefits paid during 1998 approximated $300,000. The Company substantially completed the reorganization plan in 1999 and incurred severance, a loss on a sublease and other costs aggregating approximately $900,000, which were charged against the reorganization accrual. At December 31, 1999, approximately $35,000 remained accrued for these expenses. The Company sold the long-lived assets in 1999 for an aggregate amount that approximated net book value.

The Company owns 50% of Digital Instruments GmbH, a German company, which exclusively distributed Digital's products in Germany and Eastern Europe through September 30, 1998. The Company accounts for its investment in Digital Instruments GmbH under the equity method of accounting. Prior to the merger, Digital had elected "S" Corporation status for income tax purposes and therefore was not subject to federal income taxes at the corporation level. As a result of the merger, Digital's "S" Corporation election was terminated. Pro forma net income and pro forma net income per common share as shown in the accompanying Consolidated Statements of Income reflects income taxes for Digital as if it had been a "C" Corporation for all periods presented.

Wyko Corporation

On July 25, 1997, Wyko Corporation ("Wyko"), a leading supplier of optical interferometric measurement systems for the data storage and semiconductor industries, merged with and into a subsidiary of Veeco. Under the merger, Wyko shareholders received 2,863,810 shares of Veeco Common Stock and holders of options to acquire Wyko common stock received options to acquire an aggregate of 136,190 shares of Veeco Common Stock. The merger was accounted for as a pooling of interests transaction. Merger expenses of approximately $2,250,000 pertaining to investment banking, legal fees and other one-time transaction costs were charged to operating expenses during the year ended December 31, 1997.

The following table displays the revenues and net income of Ion Tech for the periods preceding the business combination and the amounts after the merger through December 31, 1999:

	Year ended December 31,		
	1999	1998	1997
Net Sales:			
Veeco (pre-merger)	**$178,291**	$206,838	$216,728
Ion Tech	**14,497**	8,147	6,682
Veeco (post-merger)	**53,818**	—	—
Combined	**$246,606**	$214,985	$223,410
Net income:			
Veeco (pre-merger)	**$ 14,344**	$ 12,701	$ 26,027
Ion Tech	**2,450**	672	589
Veeco (post-merger)	**3,616**	—	—
Combined	**$ 20,410**	$ 13,373	$ 26,616

OptiMag, Inc.

On October 14, 1999, Veeco acquired the capital stock of OptiMag, Inc. ("OptiMag"), of San Diego, California, for cash of $3,300,000 and a deferred payment of $1,200,000 due on October 14, 2000. In addition, the acquisition calls for contingent consideration to be paid by Veeco based upon both future earnings and the future appraised value of OptiMag. The contingent consideration will be calculated based upon a predetermined percentage of OptiMag's sales for the period from January 1, 2000 to December 31, 2000, as well as the appraised fair market value of OptiMag, adjusted for certain items, as of December 31, 2000. OptiMag, a development-stage company founded in 1998, is a supplier of automated optical defect inspection and process control equipment for the data storage thin film magnetic head industry. The acquisition was accounted for using the purchase method of accounting. Accordingly, the purchase price was allocated to the net assets acquired based on their estimated fair values as determined by an independent appraisal.

The purchase price was allocated as follows: $2,450,000 to excess of cost over net assets acquired; $3,200,000 to core technology; $570,000 to assembled workforce, trademarks and a covenant not-to-compete and $1,300,000 to in-process research and development projects ("R & D") for projects that had not reached technological feasibility and had no alternative future uses and, thus, the amounts allocated to such projects were expensed as of the date of acquisition.

OptiMag's in-process R & D value is comprised of Oasis version 1.0 software and hardware component development program, which includes the introduction of certain new technologies. At the acquisition date, OptiMag's R & D program was approximately 84% complete. The total continuing R & D commitment to complete the project is currently expected to be approximately $55,000 and is expected to be completed in March 2000. Expenditures to complete OptiMag's project are subject to change, given the uncertainties of the development process, and no assurance can be given that deviations from these estimates will not occur. Additionally, the project will require maintenance R & D after it has reached a state of technological and commercial feasibility. There is risk associated with the completion of the project, and there is no assurance that the project will meet with technological or commercial success.

The value assigned to purchased in-process R & D was determined by estimating the costs to develop the purchased in-process technology into commercially viable products, estimating the resulting net cash flows from the projects and discounting the net cash flows to their present value. The revenue projection used to value the in-process R & D is based on estimates of relevant market sizes and growth factors, expected trends in technology and the nature and expected timing of new product introductions by the Company and its competitors. The rate utilized to discount the net cash flows to their present value was 30%.

The amortization periods of intangible assets related to excess of cost over net assets acquired, core technology, assembled workforce, trademarks and covenant not-to-compete are ten years, five years, three years, five years and two years, respectively.

The results of operations of OptiMag for the period from October 15, 1999 to December 31, 1999 are included in the accompanying Consolidated Statement of Income for the year ended December 31, 1999. Results of operations prior to the acquisition are not material to the Consolidated Statements of Income for the years ended 1999 and 1998.

Physical Vapor Deposition

On April 10, 1997, Veeco acquired from Materials Research Corporation, certain assets of its Physical Vapor Deposition data storage business for cash of $4,375,000 plus the assumption of certain liabilities. The acquisition was accounted for using the purchase method of accounting. Accordingly, the purchase price was allocated to the net assets acquired based on their estimated fair values as determined by an independent appraisal, including $4,200,000 allocated to in-process engineering and development projects. The associated projects had not reached technological feasibility and had no alternative future uses and thus the amounts allocated to such projects were expensed as of the date of acquisition.

3. Balance Sheet Information

	December 31,	
	1999	1998
(In thousands)		
Inventories:		
Components and spare parts	**$32,729**	$29,871
Work in process	**8,429**	13,785
Finished goods	**15,531**	12,713
	$56,689	$56,369

	December 31,		Estimated
	1999	1998	Useful Lives
(In thousands)			
Property, plant and equipment:			
Land	**$ 4,463**	$ 5,463	
Buildings and improvements	**21,327**	19,760	10-40 years
Machinery and equipment	**34,248**	30,005	3-10 years
Leasehold improvements	**3,554**	1,831	3-7 years
	63,592	57,059	
Less accumulated depreciation and amortization	**21,668**	17,746	
	$41,924	$39,313	

(In thousands)	December 31, 1999	1998
Accrued expenses:		
Litigation reserve	**$ 1,080**	$ 1,500
Payroll and related benefits	**6,759**	5,375
Taxes, other than income	**4,433**	4,062
Deferred service contract revenue	**465**	738
Customer deposits and advanced billings	**3,029**	3,507
Installation and warranty	**5,802**	6,119
Other	**7,343**	4,948
	$28,911	$26,249

Short-term Investments

Management determines the appropriate classification of securities at the time of purchase and reevaluates such designation as of each balance sheet date. All investments are classified as available-for-sale securities. Available-for-sale securities are carried at fair value, with the unrealized gains and losses, net of tax, reported as a separate component of shareholders' equity. The amortized cost of debt securities in this category is adjusted for amortization of premiums and accretion of discounts to maturity. Such amortization is included in interest (income) expense. Realized gains and losses, interest and dividends and declines in value judged to be other-than-temporary on available-for-sale securities are included in interest (income) expense. The cost of securities sold is based on the specific identification method.

The carrying amounts of available-for-sale securities approximate fair value. The following is a summary of available-for-sale securities:

(In thousands)	December 31, 1999
Commercial paper	**$19,047**
Municipal bonds	**14,527**
Floating rate bonds	**9,029**
Corporate bonds	**6,071**
Obligations of U.S. Govt. agencies	**2,003**
Other debt securities	**211**
	$50,888

All investments at December 31, 1999 have contractual maturities of one year or less. During the year ended December 31, 1999, available-for-sale securities with fair values at the date of sale of approximately $29.0 million were sold.

4. Long-term Debt

The Company has an unsecured credit facility, as amended (the "Credit Facility"), which may be used for working capital, acquisitions and general corporate purposes. The Credit Facility provides the Company with up to $40 million of availability. The Credit Facility's interest rate is the prime rate of the lending banks, but is adjustable to a maximum rate of ¼% above the prime rate in the event the Company's ratio of debt to cash flow exceeds a defined ratio. A LIBOR based interest rate option is also provided.

The Credit Facility expires December 31, 2001, but under certain conditions is convertible into a term loan, which would amortize quarterly through December 31, 2005.

The Credit Facility contains certain restrictive covenants, which among other things, impose limitations with respect to incurrence of certain additional indebtedness, payments of dividends, long-term leases, investments, mergers, consolidations and specified sales of assets. The Company is also required to satisfy certain financial tests.

As of December 31, 1999 and 1998, no borrowings were outstanding under the Company's Credit Facility and the Company was contingently liable for a letter of credit of approximately $859,000 issued under the Credit Facility and expiring in April, 2000.

In April 1995, the stockholders of Digital received distributions in the amount of $8,000,000 in the form of unsecured promissory notes, bearing interest at 7.21 percent per annum with interest due quarterly and principal due on or before March 31, 2000. Interest relating to these notes approximated $577,000 for each of the years ended 1999, 1998 and 1997.

Long-term debt consists of two mortgage notes payable, each secured by certain land and buildings, with carrying amounts of approximately $2,800,000 and $11,800,000, respectively, at December 31, 1999. One mortgage note payable bears interest at a rate of 8.5% and matures on October 14, 2002. The other mortgage note payable bears interest at a rate of 7.75% for the first five years with a final payment due in December 2007. At the end of five years, the interest rate will change each year based on the bank's index rate plus 1.75%. This note payable is being amortized over 25 years with a balloon payment due at the end of ten years.

Long-term debt matures as follows:

(In thousands)	
2000	$ 235
2001	290
2002	2,218
2003	142
2004	148
Thereafter	5,961
	8,994
Less current portion	235
	$8,759

5. Shareholders' Equity and Stock Compensation Plans

Historical net income and earnings per share determined on a pro forma basis as if the Company had accounted for its stock options granted subsequent to December 31, 1994 under the fair value method estimated at the date of grant using a Black-Scholes option-pricing model follows:

	December 31,		
	1999	1998	1997
(In thousands, except per share amount)			
Pro forma net income	**$15,022**	$9,704	$25,373
Pro forma net income per share	**$ .86**	$ .60	$ 1.60
Pro forma diluted net income per share	**$ .85**	$ .59	$ 1.55

Fixed Option Plans

The Company has two fixed option plans. The Veeco Instruments Inc. Amended and Restated 1992 Employees' Stock Option Plan (the "Stock Option Plan") provides for the grant to officers and key employees of up to 2,826,787 options (141,171 options available for future grants as of December 31, 1999) to purchase shares of Common Stock of the Company. Stock options granted pursuant to the Stock Option Plan become exercisable over a three-year period following the grant date and expire after ten years. The Veeco Instruments Inc. 1994 Stock Option Plan for Outside Directors, as amended (the "Directors' Option Plan"), provides for the automatic grant of stock options to each member of the Board of Directors of the Company who is not an employee of the Company. The Directors' Option Plan provides for the grant of up to 215,000 options (80,003 options available for future grants as of December 31, 1999) to purchase shares of Common Stock of the Company. Such options granted are exercisable immediately and expire after ten years. In connection with the merger with Wyko, holders of the then outstanding Wyko stock options received options to purchase an aggregate of 136,190 shares of Veeco Common Stock.

The fair values of the options issued under the two plans at the date of grant were estimated with the following weighted-average assumptions for 1999, 1998 and 1997: risk-free interest rate of 5.6%, 5.5% and 6.3% respectively, no dividend yield, volatility factor of the expected market price of the Company's Common Stock of 64%, 59% and 50%, respectively, and a weighted-average expected life of the options of four years.

A summary of the Company's stock option plans as of December 31, 1997, 1998 and 1999, and changes during the years ended on those dates is presented below:

	1997		1998		**1999**	
	Shares (000)	Option Price Per Share	Shares (000)	Weighted-Average Exercise Price	**Shares (000)**	**Weighted-Average Exercise Price**
Outstanding at beginning of year	658	$ 9.44	1,154	$22.64	**1,687**	**$25.46**
Granted	681	32.22	1,037	24.29	**869**	**31.16**
Exercised	(165)	9.76	(336)	8.86	**(261)**	**22.67**
Forfeited	(20)	21.60	(168)	29.61	**(171)**	**27.11**
Outstanding at end of year	1,154	$22.64	1,687	$25.46	**2,124**	**$27.95**
Options exercisable at year-end	330	$ 9.25	346	$24.42	**620**	**$26.49**
Weighted-average fair value of options granted during the year	—	$14.83	—	$12.36	**—**	**$16.71**

The following table summarizes information about fixed stock options outstanding at December 31, 1999:

	Options Outstanding			Options Exercisable	
Range of Exercise Price	Number Outstanding at December 31, 1999 (000's)	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number Outstanding at December 31, 1999 (000's)	Weighted-Average Exercise Price
$ 0.69	1	3.0	$ 0.69	1	$ 0.69
2.18	5	0.5	2.18	5	2.18
4.50	16	4.6	4.50	16	4.50
9.50 - 13.38	38	5.8	12.20	38	12.20
14.50 - 21.63	56	6.4	16.49	51	15.95
22.00 - 32.06	1,751	8.7	27.24	372	26.47
35.00 - 50.25	255	8.5	39.58	136	37.98
57.25	2	7.8	57.25	1	57.25
$ 0.69 - 57.25	2,124	8.5	$27.95	620	$26.49

Employee Stock Purchase Plan

Under the Veeco Instruments Inc. Employee Stock Purchase Plan (the "Plan"), the Company is authorized to issue up to 250,000 shares of Common Stock to its full-time domestic employees, nearly all of whom are eligible to participate. Under the terms of the Plan, employees can choose each year to have up to 6% of their annual base earnings withheld to purchase the Company's Common Stock. The purchase price of the stock is 85% of the lower of its beginning-of-year or end-of-year market price. Under the Plan, the Company issued 15,949 shares, 29,352 shares and 12,996 shares to employees in 1999, 1998 and 1997, respectively. The fair value of the employees' purchase rights was estimated using the following assumptions for 1999, 1998 and 1997, respectively: no dividend yield for all years; an expected life of one year for all years; expected volatility of 64%, 59%, and 70%; and risk-free interest rates of 4.5%, 5.3%, and 5.3%. The weighted-average fair value of those purchase rights granted in 1999, 1998 and 1997 was $20.65, $8.79 and $6.58 respectively.

As of December 31, 1999, the Company has reserved 2,345,511 and 160,949 shares of Common Stock for issuance upon exercise of stock options and issuance of shares pursuant to the Plan, respectively.

Preferred Stock

The Board of Directors has authority under the Company's Certificate of Incorporation to issue shares of preferred stock with voting and economic rights to be determined by the Board or Directors.

6. Income Taxes

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's deferred tax liabilities and assets are as follows:

	December 31,	
	1999	1998
(In thousands)		
Deferred tax liabilities:		
Tax over book depreciation	**$2,719**	$ 937
Other	**8**	—
Total deferred tax liabilities	**2,727**	937
Deferred tax assets:		
Inventory valuation	**5,539**	2,861
Foreign net operating loss carryforwards	**234**	246
Warranty and installation	**2,222**	2,380
Other	**1,783**	703
Total deferred tax assets	**9,778**	6,190
Valuation allowance	**(234)**	(246)
Net deferred tax assets	**9,544**	5,944
Net deferred taxes	**$6,817**	$5,007

For financial reporting purposes, income (loss) before income taxes consists of:

(In thousands)	1999	1998	1997
		Year ended December 31,	
Domestic	$26,950	$17,094	$34,413
Foreign	5,446	2,015	(17)
	$32,396	$19,109	$34,396

Significant components of the provision (benefit) for income taxes are presented below:

(In thousands)	1999	1998	1997
		Year ended December 31,	
Current:			
Federal	$10,441	$ 4,683	$ 7,510
Foreign	2,738	546	306
State	2,133	1,583	1,664
	15,312	6,812	9,480
Deferred:			
Federal	(2,516)	(960)	(1,509)
Foreign	(468)	90	—
State	(342)	(206)	(191)
	(3,326)	(1,076)	(1,700)
	$11,986	$ 5,736	$ 7,780

The following is a reconciliation of the income tax expense computed using the federal statutory rate to the Company's actual income tax expense:

(In thousands)	1999	1998	1997
		Year ended December 31,	
Tax at U.S. statutory rates	$11,339	$ 6,688	$12,039
State income taxes (net of federal benefit)	1,073	843	941
Goodwill amortization	396	46	46
Nondeductible merger expenses	910	1,164	700
Other nondeductible expenses	48	143	120
Operating losses not currently realizable	91	14	335
Income of "S" Corporation not subject to federal corporation tax	—	(1,513)	(4,875)
Operating losses currently realizable	(15)	(168)	(13)
Research and development tax credit	(1,000)	(805)	(627)
Benefit of foreign sales corporation	(1,118)	(460)	(479)
Other	262	(216)	(407)
	$11,986	$ 5,736	$ 7,780

One of the Company's foreign subsidiaries has net operating loss carryforwards for foreign tax purposes of approximately $600,000 at December 31, 1999, which expire in the year 2004.

7. Commitments and Contingencies and Other Matters

Minimum Lease Commitments

Minimum lease commitments as of December 31, 1999 for property and equipment under operating lease agreements (exclusive of renewal options) are payable as follows:

(In thousands)	
2000	$2,032
2001	1,835
2002	1,684
2003	764
2004	384
Thereafter	59
	$6,758

Rent charged to operations amounted to $2,515,000, $1,817,000 and $2,057,000 in 1999, 1998 and 1997, respectively. In addition, the Company is obligated under the leases for certain other expenses, including real estate taxes and insurance.

Royalties

The Company has arrangements with a number of third parties to use patents in accordance with license agreements. Royalties and license fees expensed under these agreements approximated $847,000, $511,000 and $753,000 in 1999, 1998 and 1997, respectively.

Environmental Remediation

In compliance with a Cleanup and Abatement Order ("CAO") issued by the California Regional Water Quality Control Board, Central Coast Region (the "RWQCB"), the Company performed soil remediation in 1995 at a site which was leased by a predecessor of the Company (the "Site"). In settlement of a lawsuit brought by the current and former owners of the Site, the Company agreed to pay approximately $350,000 (the last installment was paid by February 1, 1996), to perform any additional remediation work at the Site required by environmental authorities, and to indemnify the plaintiffs with respect to alleged contamination at the Site. Pursuant to the CAO, in September 1998, the Company began implementation of a groundwater remediation plan approved by the RWQCB. Because monthly monitoring following implementation of the plan indicated contaminant levels within permitted standards, the local environmental authority issued a letter in July 1999 confirming completion of the site remediation and stating that no further action was required at that time.

The Company may, under certain circumstances, be obligated to pay up to $250,000 in connection with the implementation of a comprehensive plan of environmental remediation at its Plainview, New York facility. The Company has been indemnified for any liabilities it may incur in excess of $250,000 with respect to any such remediation. No comprehensive plan has been required to date. Even without consideration of such indemnification, the Company does not believe that any material loss or expense is probable in connection with any remediation plan that may be proposed.

The Company is aware that petroleum hydrocarbon contamination has been detected in the soil at the site of a facility leased by the Company in Santa Barbara, California. The Company has been indemnified for any liabilities it may incur which arise from environmental contamination at the site. Even without consideration of such indemnification, the Company does not believe that any material loss or expense is probable in connection with any such liabilities.

The former owner of the land and building in which Veeco Metrology, Santa Barbara's operating facilities and offices are located has disclosed that there are hazardous substances present in the ground under the building. Management believes that the comprehensive indemnification clause that is part of the purchase contract provides adequate protection against any environmental issues that may arise.

Litigation

In January 2000, Veeco received a revised calculation of damages in a 1988 patent infringement lawsuit in the U.S. District Court of Arizona. Pursuant to this revision, Veeco reversed approximately $420,000 of the $1,500,000 litigation reserve in 1999 that was no longer required. The reversal is included in other expense (income)-net in the accompanying consolidated statement of income.

The Company is involved in various legal proceedings arising in the normal course of its business. In the opinion of the Company's management, based upon the advice of counsel, the ultimate resolution of these matters will not have a material adverse effect on the Company's consolidated financial position, results of operations or cash flows.

Related Party Transaction

Balances and transactions with Digital Instruments GmbH that are reflected in the accompanying consolidated financial statements are as follows:

	1998	1997
(In thousands)		
Accounts receivable	—	$1,788
Sales	$4,337	3,025

The Company makes purchases of inventory from a company, which is owned partially by an individual who is also employed by the Company. Payments to this related company in 1999, 1998 and 1997 were approximately $2,996,000, $4,883,000 and $3,120,000, respectively.

Concentration of Credit Risk

The Company's business depends in large part upon the capital expenditures of data storage, semiconductor and optical telecommunications manufacturers which accounted for the following percentages of the Company's net sales:

	December 31,		
	1999	1998	1997
Data storage	**54.8%**	52.8%	51.6%
Semiconductor	**12.1%**	18.6%	19.3%
Telecommunications	**8.3%**	3.8%	3.0%

Sales to one customer accounted for approximately 14%, 10% and 14%, sales to another customer accounted for approximately 10%, 17% and 6% and sales to another customer accounted for approximately 7%, 7% and 11% of the Company's net sales during the years ended December 31, 1999, 1998 and 1997, respectively. Each of the Company's product segments sell to these major customers. At December 31, 1999 and 1998, accounts receivable due from these three customers represented 24% and 37% of aggregate accounts receivable, respectively.

The Company manufactures and sells its products to companies in different geographic locations. In general, the Company does not require payment in advance of shipment or collateral for payment. The Company does, however, perform periodic credit evaluations of its customers' financial condition and, where appropriate, requires that letters of credit be provided on foreign sales. Receivables generally are due within 30-60 days. The Company's net accounts receivable are concentrated in the following geographic locations:

	December 31,	
	1999	1998
(in thousands)		
United States	**$22,994**	$18,481
Europe	**9,028**	11,942
Japan	**17,889**	8,583
Asia Pacific	**8,161**	3,297
Other	**321**	1,673
	$58,393	$43,976

Sale of Leak Detection Business

During the fourth quarter of 1999, the Company entered into an agreement to sell its leak detection business, which is part of the industrial measurement product segment. For the years ended 1999, 1998 and 1997, the leak detection business represented approximately $9,200,000, $10,300,000 and $10,400,000, respectively, of total sales. The sale closed on January 17, 2000. As a result of the transaction, the Company recorded a loss of $2,500,000 on the sale, including the write-off of approximately $1,000,000 of goodwill that was previously allocated to this line of business. The assets held for sale are included in prepaid expenses and other current assets in the accompanying consolidated balance sheet at December 31, 1999.

8. Foreign Operations, Geographic Area and Product Segment Information

Revenue and long-lived assets related to operations in the United States and other foreign countries as of and for the years ended December 31, 1999, 1998 and 1997 are as follows:

	Net Sales to Unaffiliated Customers			Long-Lived Assets		
	1999	1998	1997	**1999**	1998	1997
United States	**$227,421**	$207,410	$218,970	**$46,119**	$43,133	$39,722
Foreign Countries	**70,777**	39,103	13,698	**1,314**	367	115
Eliminations	**(51,592)**	(31,528)	(9,258)	**—**	—	—
	$246,606	$214,985	$223,410	**$47,433**	$43,500	$39,837

The aggregate foreign exchange gains and (losses) included in determining consolidated results of operations were ($421,000), $774,000, and ($34,000) in 1999, 1998, and 1997, respectively.

The Company has three reportable segments: metrology, process equipment and industrial measurement. The Company's metrology product line manufactures and distributes to customers in the data storage and semiconductor industries, as well as research and development centers and universities. The Company's process equipment product line includes etch and deposition systems, primarily for data storage and optical telecommunications applications. The Company's industrial measurement products have applications in a wide range of industries including electronic, aerospace, transportation and semiconductor.

The Company evaluates performance based on profit or loss from operations before income taxes. The accounting policies of the reportable segments are the same as those described in the summary of significant accounting policies. Costs excluded from segment profit primarily consist of corporate expenses, including income taxes, as well as other non-recurring charges for purchased in-process technology, reorganization and asset impairment charges and merger-related costs. Corporate expenses are comprised primarily of general and administrative expenses.

The Company's reportable segments are business units that offer different products. The reportable segments are each managed separately because they manufacture and distribute distinct products with different production processes.

The following represents the reportable product segments of the Company:

	Net Sales			Operating Income (Loss)			Total Assets		
	1999	1998	1997	**1999**	1998	1997	**1999**	1998	1997
Metrology	**$112,172**	$126,160	$112,751	**$22,955**	$26,328	$23,748	**$ 64,959**	$ 73,445	$ 68,025
Process equipment	**117,359**	69,078	91,212	**20,113**	3,315	20,384	**87,643**	61,769	58,348
Industrial measurement	**17,075**	19,747	19,447	**(2,000)**	(5)	(381)	**15,135**	16,807	13,162
Unallocated corporate amount	**—**	—	—	**(4,056)**	(2,022)	(2,783)	**97,542**	27,210	26,416
Merger and reorganization expenses	**—**	—	—	**(2,600)**	(7,500)	(2,250)	**—**	—	—
Loss on sale of leak detection business	**—**	—	—	**(2,500)**	—	—	**—**	—	—
Write-off of purchased in-process technology	**—**	—	—	**(1,300)**	—	(4,200)	**—**	—	—
Total	**$246,606**	$214,985	$223,410	**$30,612**	$20,116	$34,518	**$265,279**	$179,231	$165,951

Other Significant Items

	Year ended December 31,		
	1999	1998	1997
Depreciation and amortization expense:			
Metrology	**$ 1,571**	$1,674	$ 522
Process equipment	**3,498**	2,698	1,589
Industrial measurement	**129**	122	15
Unallocated corporate	**632**	518	358
Consolidated depreciation and amortization expense	**$ 5,830**	$5,012	$ 2,484
Expenditures for long-lived assets:			
Metrology	**$ 4,230**	$1,488	$13,216
Process equipment	**4,884**	6,079	8,336
Industrial measurement	**50**	65	646
Unallocated corporate	**3,768**	678	1,548
Consolidated expenditures for long-lived assets	**$12,932**	$8,310	$23,746

9. Defined Contribution Benefit Plans

The Company maintains three defined contribution plans under Section 401(k) of the Internal Revenue Code. Principally all of the Company's domestic full-time employees are eligible to participate in one of the three plans. Under the plans, employees may contribute up to a maximum of 15% to 20% of their annual wages, depending on the plan. Employees are immediately vested in their contributions. Two of the plans provide for partial matching contributions by the Company, which vest over a five-year period. Company contributions to the plans were $782,000, $717,000 and $496,000 in 1999, 1998 and 1997, respectively.

10. Subsequent Events

On February 29, 2000, the Company signed a definitive merger agreement with CVC, Inc. ("CVC") of Rochester, New York. Under the terms of the agreement, CVC shareholders will receive 0.43 shares of Veeco Common Stock for each share of CVC Common Stock outstanding. The merger will be accounted for as a pooling of interests, and as a result, historical financial data will be restated in future reports. The merger is expected to close in the second quarter of 2000, pending the vote of shareholders of both companies and other customary closing conditions. Upon consumption of the merger, CVC will become a wholly-owned subsidiary of the Company. CVC provides cluster tool manufacturing equipment used in the production of evolving tape and disk drive recording head fabrication, optical components, passive components, MRAM, bump metallization, and next generation logic devices.

On February 11, 2000, Veeco entered into a strategic alliance with Seagate Technology, Inc. ("Seagate") under which Veeco assumed production responsibility for Seagate's internal Slider Level Crown ("SLC") product line and acquired rights to commercialize such products for sale to third parties. The acquisition was accounted for using the purchase method of accounting.

On January 31, 2000, Monarch Labs, Inc. ("Monarch"), a developer and manufacturer of automated quasi-static test systems for the data storage industry, merged with and into a subsidiary of Veeco. Monarch was a privately held company located in Longmont, Colorado. Under the terms of the merger, Monarch shareholders received 282,224 shares of Veeco Common Stock. The merger was accounted for as a pooling of interests transaction, however, as Monarch's historical results of operations and financial position are not material in relation to those of Veeco, financial information prior to the merger will not be restated in future reports.

Report of Independent Auditors

To the Shareholders and the Board of Directors
Veeco Instruments Inc.

We have audited the accompanying consolidated balance sheets of Veeco Instruments Inc. and Subsidiaries ("Veeco" or the "Company") as of December 31, 1999 and 1998, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 1999. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of Digital Instruments, Inc. and Affiliates ("Digital"), which merged with Veeco in May 1998, which statements reflect total revenues constituting 23% in 1997 of the consolidated total. These statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to data included for Digital, is based solely on the report of other auditors.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the report of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the report of other auditors for 1997, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Veeco Instruments Inc. and Subsidiaries at December 31, 1999 and 1998, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 1999, in conformity with accounting principles generally accepted in the United States.

Ernst & Young LLP

Melville, New York
February 10, 2000

Report of Independent Public Accountants

To Digital Instruments, Inc.
and affiliates:

We have audited the combined statements of income, shareholders' equity and cash flows for the year ended December 31, 1997 (not presented herein) of DIGITAL INSTRUMENTS, INC. (a California corporation) and affiliates. These financial statements are the responsibility of the Companies' management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the results of Digital Instruments, Inc. and affiliates operations and their cash flows for the year ended December 31, 1997 in conformity with generally accepted accounting principles.

Arthur Andersen LLP

Los Angeles, California
February 28, 1998

Stock and Dividend Information

The Common Stock is quoted on the Nasdaq National Market® under the symbol "VECO." The 1999 and 1998 high and low closing prices are as follows:

	1999		1998	
	High	**Low**	High	Low
First Quarter	**$62.25**	**$36.50**	$37.19	$20.38
Second Quarter	**43.88**	**29.81**	42.13	22.94
Third Quarter	**36.75**	**26.88**	35.00	22.13
Fourth Quarter	**49.13**	**24.63**	54.38	21.63

On March 20, 2000, the closing price for the Company's Common Stock on the Nasdaq National Market was $85.00. As of March 20, 2000, the Company had approximately 180 shareholders of record.

The Company has not paid dividends on the Common Stock. The Company intends to retain future earnings, if any, for the development of its business and, therefore, does not anticipate that the Board of Directors will declare or pay any dividends on the Common Stock in the foreseeable future. In addition, the provisions of the Company's current credit facility limits the Company's ability to pay dividends. The Board of Directors will determine future dividend policy based on the Company's results of operations, financial condition, capital requirements and other circumstances.

Corporate Information

Board of Directors

Edward H. Braun
Chairman, CEO and President,
Veeco Instruments Inc.

Richard A. D'Amore
General Partner, North Bridge Venture Partners and
Hambro International Equity Partners

Joel A. Elftmann
Chairman,
FSI International (Nasdaq: FSII)

Heinz K. Fridrich
Courtesy Professor in the Department
of Industrial and Systems Engineering,
University of Florida

Dr. Paul R. Low
President and CEO, PRL Associates

Roger D. McDaniel
Director, Integrated Process
Equipment Corp. (Nasdaq: IPEC)

Irwin H. Pfister
Executive Vice President and Corporate Officer,
Schlumberger, Ltd. (NYSE: SLB)

Walter J. Scherr
Consultant and former Executive Vice President,
Veeco Instruments Inc.
Director, Valence Operating Co.

Corporate Management

Edward H. Braun
Chairman, CEO and President

Daniel C. Croucher
Vice President, Human Resources

Robert D. Hempstead, Ph.D.
Chief Technology Officer

John P. Kiernan
Vice President, Corporate Controller

John F. Rein, Jr.
Vice President, Finance,
Chief Financial Officer,
Secretary and Treasurer

Gregory A. Robbins
Vice President, General Counsel

Debra A. Wasser
Vice President, Corporate Communications
and Investor Relations

Operating Management

Dennis J. Cahalan
General Manager, Monarch Labs

David T. Cornaby
President, OptiMag, Inc.

Gerald Isaacson, Ph.D.
President, IonTech, Inc.

Don R. Kania, Ph.D.
Vice President, General Manager
Metrology Group, Santa Barbara

Lloyd J. LaComb, Jr.
Vice President, General Manager
Metrology Group, Tucson

Emmanuel N. Lakios
President, Process Equipment Group

Robert P. Oates
Vice President, General Manager
Industrial Measurement Group

Joseph F. Rivlin
Executive Vice President,
Worldwide Field Operations

Allen R. Schwartz
Vice President,
Worldwide Customer Service

Francis Steenbeke
Vice President,
International Sales and Marketing

Manufacturing & Engineering Facilities

Ft. Collins, CO
Longmont, CO
Minneapolis, MN
Plainview, NY (Corporate Headquarters)
Ronkonkoma, NY
San Diego, CA
San Jose, CA
Santa Barbara, CA
Tucson, AZ

Worldwide Sales & Support Centers

Domestic

Chadds Ford, PA
Ft. Collins, CO
Longmont, CO
Plainview, NY
Ronkonkoma, NY
San Diego, CA
San Jose, CA
Santa Barbara, CA
Tucson, AZ
Tustin, CA

International

Beijing, China
Cambridge, UK
Dourdan, France
Hsinchu, Taiwan
Mannheim, Germany
Munich, Germany
Pennyburn, N. Ireland
Shin-Osaka, Japan
Penang, Malaysia
Singapore
Tokyo, Japan
Watford, UK

Securities Counsel

Kaye, Scholer, Fierman, Hays & Handler, LLP
425 Park Avenue
New York, NY 10022

Independent Auditors

Ernst & Young LLP
395 North Service Road
Melville, NY 11747

Transfer Agent & Registrar

American Stock Transfer & Trust Co.
40 Wall Street
New York, NY 10005
1-800-937-5449

Investor Relations

Veeco welcomes inquiries from its stockholders and other interested investors. For further information on the Company's activities, additional copies of this report, the Annual Report on Form 10-K or other financial materials, please contact:

Investor Relations
Veeco Instruments Inc.
Terminal Drive
Plainview, NY 11803
(516) 349-8300
or visit our website at http://www.veeco.com

Stock Listing

The Company's Common Stock is listed on the Nasdaq National Market® under the symbol VECO. Options on Veeco's Common Stock are traded on the Chicago Board Options Exchange and the American Stock Exchange.

Annual Meeting

The 1999 annual meeting of stockholders will be held at 9:30 AM on Friday, May 12, 2000 at the Corporate Center, 395 North Service Road, Melville, New York.

To the extent that this annual report discusses expectations about market conditions or about market acceptance and future sales of the Company's products, or otherwise makes statements about the future, such statements are forward-looking and are subject to a number of risks and uncertainties that could cause actual results to differ materially from the statements made. These factors include the cyclical nature of the data storage, optical telecommunication and semiconductor industries, risks associated with the acceptance of new products by individual customers and by the marketplace, and other factors discussed under the Management's Discussion and Analysis—Risk Factors sections above.

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