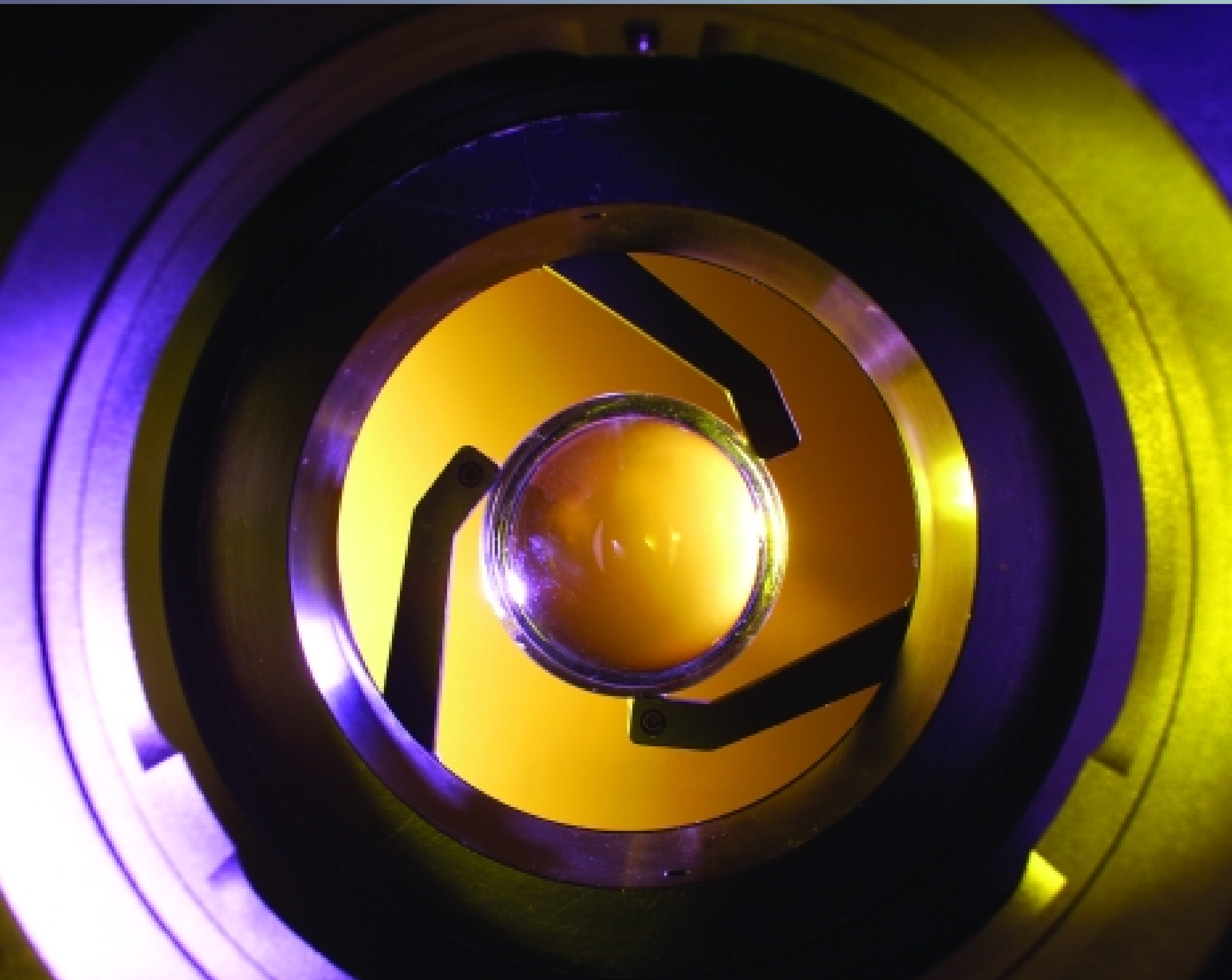

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(Thousands, except per share amounts)	Fiscal Year Ended June 30, 2001	2000[1]	1999[1]	1998[1]	1997[1]
Net sales	**$ 133,250**	$ 87,243	$ 63,382	$ 99,084	$ 87,220
Gross profit	**$ 61,169**	$ 32,555[2]	$ 22,385	$ 41,449	$ 41,825
% of sales	**46%**	37%	35%	42%	48%
Earnings (loss) before taxes and nonrecurring charges	**$ 14,113**	$ 7,256[2]	$ (6,851)	$ 12,940[2]	$ 21,121[2]
% of sales	**11%**	8%	(11)%	13%	24%
Earnings (loss) before nonrecurring charges	**$ 10,659**	$ 4,797[2]	$ (3,876)	$ 8,949[2]	$ 13,960[2]
% of sales	**8%**	5%	(6)%	9%	16%
Earnings (loss) per share before nonrecurring charges					
Basic	**$ 0.69**	$ 0.38[2]	$ (0.33)	$ 0.78[2]	$ 1.34[2]
Diluted	**$ 0.66**	$ 0.34[2]	$ (0.33)	$ 0.69[2]	$ 1.16[2]
Earnings (loss) per share before nonrecurring charges growth rate	**94%**	203%	(148)%	(41)%	62%
Net earnings (loss)	**$ 10,659**	$ (16,047)	$ (3,876)	$ 7,029	$ 2,877
Net earnings (loss) per common share:					
Basic[3]	**$ 0.69**	$ (1.28)[4]	$ (0.33)[4]	$ 0.61	$ 0.28
Diluted[3]	**$ 0.66**	$ (1.28)[4]	$ (0.33)[4]	$ 0.55	$ 0.24
Weighted average number of shares:					
Basic	**15,398**	12,511	11,780	11,480	10,403
Diluted	**16,063**	12,511	11,780	12,877	11,998
Research and development	**$ 17,673**	$ 11,270[2]	$ 9,185	$ 9,844	$ 7,151
Capital expenditures	**$ 33,050**	$ 6,513	$ 4,372	$ 9,126	$ 4,723
Depreciation and amortization	**$ 3,996**	$ 11,318[2]	$ 4,448	$ 3,412	$ 2,612

	June 30, 2001	2000[1]	1999[1]	1998[1]	1997[1]
Working capital	**$ 94,112**	$ 56,550	$ 43,766	$ 50,246	$ 47,633
Current ratio	**4.8**	4.5	4.8	4.1	4.6
Total assets	**$ 186,832**	$ 95,162	$ 82,442	$ 91,444	$ 78,799
Long-term debt (excluding current portion)	**$ 12,281**	$ 84	$ 36	$ 65	$ —
Stockholders' equity	**$ 149,139**	$ 78,229	$ 68,712	$ 72,391	$ 62,408
Price-earnings ratio	**33.7**	N/A	N/A	26.9	128.1
Number of employees at year end	**648**	486	444	466	399
Sales per employee – average	**$ 206**	$ 179	$ 143	$ 213	$ 231
Book value per common share	**$ 8.48**	$ 5.50	$ 6.16	$ 6.60	$ 5.91
Market price at year end	**$ 22.250**	$ 90.813	$ 11.438	$ 14.813	$ 30.750

(1) The results of Firefly Technologies, Inc., (renamed to Zygo TeraOptix, Inc.), which was accounted for as a pooling-of-interests, are included as of July 1, 1997. The results of Sight Systems, Inc. ("SSI"), which was accounted for as an immaterial pooling-of-interests, are included from July 1, 1997; the results of Syncotec Neue Technologien und Instrumente GmbH ("Syncotec") are included from September 1, 1997 when the acquisition of the remaining 50% of Syncotec was completed; and the results of Technical Instrument Company ("TIC") are included in the consolidated results of the Company from August 8, 1996 when that acquisition was effective. Both Syncotec and TIC were accounted for as purchases.

(2) Nonrecurring charges include acquisition-related charges of $14,001, $1,585, and $11,083 in the fourth quarter ended June 30, 2000, and in the first quarter ended September 30, 1997 and 1996, respectively; West Coast operations reorganization costs of $10,567 in the fourth quarter ended June 30, 2000; and failed merger costs of $335, in the first quarter ended September 30, 1997.

(3) The difference between basic shares outstanding and diluted shares outstanding is the assumed conversion of common stock equivalents (stock options) in the amounts of 665, 0, 0, 1,397, and 1,595, in the years ended June 30, 2001, 2000, 1999, 1998, and 1997, respectively.

(4) Accounting principles generally accepted in the United States of America require the computation of the net loss per share to be based on the weighted average basic shares outstanding.

RESULTS OF OPERATIONS

Fiscal 2001 Compared to Fiscal 2000 Net sales of $133,250,000 for fiscal 2001 increased by $46,007,000 or 53% from fiscal 2000 net sales of $87,243,000. The significant increase in sales was due to increased demand from key markets, specifically increased sales and market share in stage metrology, optical metrology, and macro optics products. For the fiscal year 2001, net sales in the semiconductor segment were $84,561,000, or 64%, net sales in the industrial segment were $35,178,000, or 26%, and net sales in the telecommunications segment were $13,511,000, or 10%.

Company sales to the Americas, primarily the United States, amounted to $68,299,000 in fiscal 2001, an increase of $19,464,000, or 40% from fiscal 2000 levels of $48,835,000. The Company's sales to outside the Americas amounted to $64,951,000 in fiscal 2001, an increase of $26,543,000, or 69%, from fiscal 2000 levels of $38,408,000. Sales to Japan during fiscal 2001 amounted to $45,194,000, an increase of $27,606,000, or 157%, from fiscal 2000 sales levels. Japan sales reached record levels driven by demand for stage metrology, metrology instrumentation components and systems, and semiconductor and optical storage. Sales to Europe/Other, primarily Europe, amounted to $12,334,000, an increase of $3,228,000, or 35%, from fiscal 2000 due to increased sales in the industrial and semiconductor markets driven by the first full year of operations of the ZygoLOT joint venture. Sales to the Pacific Rim excluding Japan, amounted to $7,423,000, a decrease of $4,291,000, or 37%, from 2000 sales levels due to reductions in sales in the semiconductor and industrial markets. Substantially all of the Company's sales and costs are negotiated and paid in U.S. dollars. Significant changes in the values of foreign currencies relative to the value of the U.S. dollar can impact the sales of the Company's products in its export markets, as would changes in the general economic conditions in those markets. The impact of such changes in foreign currency values on the Company's sales cannot be measured.

Gross profit in fiscal 2001 amounted to $61,169,000, an increase of $28,614,000, or 88% from gross profit of $32,555,000 in fiscal 2000. Excluding fiscal 2000 nonrecurring charges of $4,214,000, gross profit for fiscal 2001 increased $24,400,000, or 66%. Gross profit as a percentage of sales in fiscal 2001 was 46%, as compared to 37% in fiscal 2000. Excluding nonrecurring charges, fiscal 2000 gross profit as a percentage of net sales was 42%. On a comparable basis, excluding nonrecurring charges for fiscal 2000, the increase in gross profit and gross profit as a percentage of sales were primarily due to the increase in volume and higher productivity resulting from investments in equipment and manufacturing process enhancements.

Selling, general and administrative expenses ("SG&A") in fiscal 2001 amounted to $29,119,000, an increase of $10,615,000, or 57%, from fiscal 2000. As a percentage of net sales, SG&A has remained relatively constant at approximately 22% of sales. The increase in fiscal 2001 resulted from increased commissions and incentive compensation costs resulting from higher sales and profit and increased administrative costs due to one new location that opened during the year, three locations which opened last fiscal year that now have been operating for a full year, and higher professional fees. During fiscal 2000, the Company recorded a $1 million credit to SG&A as a result of a legal settlement.

Research, development and engineering expenses ("R&D") in fiscal 2001 totaled $17,673,000 and increased by $6,403,000, or 57%. Excluding fiscal 2000 nonrecurring charges of $875,000, fiscal 2001 R&D costs increased $7,278,000, or 70%. R&D as a percentage of net sales have remained relatively constant at approximately 13%. The Company continues to invest in technology to enhance its position in the marketplace. R&D was driven by investments in next-generation lithography product requirements and investments to broaden our customer base into automotive and telecommunications.

The Company did not record any nonrecurring charges in fiscal 2001. The Company recorded nonrecurring charges in the amount of $24,568,000 in fiscal 2000. The Company recorded nonrecurring charges of $14,001,000 as a result of the acquisition of Firefly Technologies, Inc., which became Zygo TeraOptix, Inc. ("Zygo TeraOptix"). The nonrecurring charge from the acquisition consisted of $12,024,000 for compensation expense resulting from the difference in the Firefly stock option exercise price and the deemed fair market value on the date of grant for financial statement purposes and $1,977,000 for the payment of professional fees related to the transaction. In 2000, the Company recorded a charge of $10,567,000 as a result of its reorganization of its West Coast operations, principally for the write-off of goodwill and inventory.

Amortization expense of $797,000 for fiscal 2001 decreased by $6,305,000 or 89% from fiscal 2000 levels of $7,102,000. Substantially all of the decrease is associated with the West Coast operations write-off of goodwill and other intangible assets in fiscal 2000.

The Company's operating profit in fiscal 2001 was $13,580,000, an increase of $31,902,000 from the operating loss of $18,322,000. Excluding fiscal 2000 nonrecurring charges of $24,568,000, operating profit for fiscal 2001 increased $7,334,000. Operating profit as a percentage of sales in fiscal 2001 was 10%, as compared to the operating loss as a percentage of sales of 21% in fiscal 2000. Excluding nonrecurring charges, fiscal 2000 operating profit as a percentage of sales was 7%.

Income tax expense in fiscal 2001 totaled $3,454,000 or 24% of pretax profits, which compares with income tax benefit of $1,459,000 or 8% of pretax losses in fiscal 2000. The effective tax rate of 24% versus the combined federal and state statutory rate of 39% in fiscal 2001 is primarily due to the impact of transactions involving the early sale of stock resulting from the exercise of incentive stock options by former employees of Firefly Technologies, Inc. (renamed Zygo TeraOptix). The effective tax rate of 8% versus the combined statutory rate of 39% in fiscal 2000 was primarily due to the tax benefits related to expenses that could not be recorded as a charge to earnings for financial statement purposes associated with the compensation charge in connection with the Firefly acquisition.

The Company recorded net earnings for fiscal year 2001 of $10,659,000 or $.66 on a diluted per share basis, as compared to a net loss of $16,047,000 or $1.28 loss per share during fiscal 2000. Excluding nonrecurring charges for fiscal year 2000, net earnings were $4,797,000, or $.34 on a diluted per share basis. The diluted weighted average number of shares outstanding at June 30, 2001 was 16,063,000, an increase of 3,552,000 as compared to 12,511,000 at June 30, 2000. The increase is due to the weighted average shares related to the secondary offering of 2,924,500 shares and the impact of stock options offset by the repurchase of 239,605 shares from two officers and directors.

Backlog at June 30, 2001 was $55,502,000, an increase of $9,559,000, or 21% as compared to $45,943,000 at June 30, 2000. The year-end fiscal 2001 backlog consisted of $11,206,000, or 20%, in the semiconductor segment, $31,689,000, or 57%, in the industrial segment, and $12,607,000, or 23%, in the telecommunications segment. The backlog decreased $14,851,000 between the third and fourth quarters due to the slowdown in the semiconductor and telecommunications markets. Orders for fourth quarter fiscal 2001 totaled $23,019,000 and consisted of $17,308,000, or 75%, in the semiconductor segment, $7,711,000, or 34%, in the industrial segment, and net debooking of $2,000,000, or (9%), in the telecommunications segment. The net debooking in the telecommunications segment was primarily due to cancellations of orders totaling $8,806,000 from two major customers due to market conditions.

Fiscal 2000 Compared to Fiscal 1999 Net sales of $87,243,000 for fiscal 2000 increased by $23,861,000 or 38% from fiscal 1999 net sales of $63,382,000. The Company's sales were favorably impacted by the increase in demand from the semiconductor market and from the reorganization of the sales function, which moved the sales, marketing and customer service to a regional basis in order to put the critical support services closer to the customer. During each quarter of fiscal 2000 there was an increase in orders, sales and backlog. Product and system backlog reflected the strong market demand for our manufacturing productivity and yield enhancement solutions. Orders for the year exceeded $100 million for the first time.

Company sales to the Americas, primarily the United States, amounted to $48,835,000 in fiscal 2000, an increase of $13,482,000, or 38% from fiscal 1999 levels of $35,353,000. The Company's sales to outside the Americas amounted to $38,408,000 in fiscal 2000, an increase of $10,379,000 or 37% from fiscal 1999 levels of $28,029,000. Sales to Japan during fiscal 2000 amounted to $17,588,000, an increase of $3,445,000, or 24.4%, from fiscal 1999 sales levels. Sales to the Pacific Rim, excluding Japan, amounted to $11,714,000, a 94% increase from 1999 sales levels. Sales to Europe/Other amounted to $9,106,000, a 16% increase from 1999 sales levels. Substantially all of the Company's sales and costs are negotiated and paid in U.S. dollars. Significant changes in the values of foreign currencies relative to the value of the U.S. dollar can impact the sales of the Company's products in its export markets as would changes in the general economic conditions in those markets. The impact of such changes in foreign currency values on the Company's sales cannot be measured.

Gross profit in fiscal 2000 amounted to $32,555,000, an increase of $10,170,000 or 45.4% from gross profit of $22,385,000 in fiscal 1999. As a percentage of net sales, gross profit in fiscal 2000 was 37.3%, as compared to 35.3% in fiscal 1999. The increase in gross profit and gross profit as a percentage of sales were primarily due to the increase in volume and a more favorable product mix.

Selling, general and administrative expenses ("SG&A") in fiscal 2000 amounted to $18,504,000, a decrease of $1,129,000 or 5.8% over fiscal 1999. During fiscal 2000, the Company recorded a $1 million credit to SG&A as a result of a legal settlement. Absent that credit, the expenses in this area remained relatively constant. As a percentage of net sales, SG&A decreased in fiscal 2000 to 21.2 % as compared to 31.0% in fiscal 1999, as a result of the increase in the volume of sales, increase in efficiencies of the group, and the decrease in the expense primarily as a result of the proceeds from the legal settlement.

Research, development and engineering expenses ("R&D") in fiscal 2000 totaled $11,270,000 and increased by $2,085,000 from fiscal 1999. The Company's management continues to pursue projects which will enhance the Company's product offering and provide long-term strategic and financial benefits. In addition to the normal investment in R&D, the Company has increased its development in the optical module market in order to develop prototypes for major users in the telecommunications industry. R&D as a percentage of net sales amounted to 12.9%, which compares with 14.5% of net sales in 1999.

The Company recorded nonrecurring charges in the amount of $24,568,000 in fiscal 2000. These charges were a result of the Company's acquisition of Firefly Technologies, Inc. (renamed Zygo TeraOptix) and the Company's decision to reorganize its West Coast operations. The Company recorded nonrecurring charges of $14,001,000 in 2000 as a result of the Firefly acquisition. The nonrecurring charge from the acquisition consisted of $12,024,000 for compensation expense resulting from the difference in the Firefly stock option exercise price and the deemed fair market value on the date of grant for financial statement purposes and $1,977,000 for the payment of professional fees related to the transaction. The Company recorded a charge of $10,567,000 as a result of its reorganization of its West Coast operations, principally for the write-off of goodwill and inventory. The Company did not record any nonrecurring charges in fiscal 1999.

Amortization expense of $7,102,000 for fiscal 2000 increased by $5,844,000 or 465% from fiscal 1999 levels of $1,258,000. Substantially all of the increase was associated with the West Coast operations write-off of goodwill and other intangible assets and the amortization expense recorded on the Atomic Force Microscope line of business.

The Company's operating loss in fiscal 2000 was $18,322,000 as compared to the operating loss of $7,691,000 in fiscal 1999.

Income tax benefit in fiscal 2000 totaled $1,459,000 or 8% of pretax loss, which compares with income tax benefit of $2,975,000 or 43% of pretax loss in fiscal 1999. The change from year-to-year relates primarily to the tax benefits related to expenses that could not be recorded as a charge to earnings for financial statement purposes associated with the compensation charge in connection with the Firefly acquisition in fiscal 2000.

The Company recorded a net loss for fiscal year 2000 of $16,047,000 or $1.28 loss per share, as compared to a net loss of $3,876,000 or $.33 loss per share during fiscal 1999. Excluding nonrecurring charges for fiscal 2000, net earnings were $4,797,000, or $.34 on a diluted per share basis.

Backlog at June 30, 2000 was $45,943,000 compared to $28,941,000 at June 30, 1999, an increase of $17,002,000 or 59%.

Liquidity and Capital Resources At June 30, 2001, working capital was $94,112,000, an increase of $37,562,000 from the $56,550,000 at June 30, 2000. The Company maintained cash, cash equivalents and marketable securities of $59,751,000 at fiscal year-end 2001, which are invested primarily in securities with maturities of 30 days or less. This represents an increase of $35,885,000 over the prior fiscal year primarily due to the net proceeds from the secondary offering ($51,824,000) and debt proceeds of ($12,560,000) offset by investments in fixed assets ($28,982,000) and inventory ($12,382,000). The increase in property, plant and equipment in fiscal 2001 was due, in part, to the purchase of a building and equipment for Zygo TeraOptix in Westborough, Massachusetts

($13,549,000) and the purchase of optics coating chambers ($4,905,000). Accounts payable and accrued expenses increased by $5,239,000, while accounts receivable increased by $7,140,000. As of June 30, 2001 the Company had $12,560,000 in long-term debt related to a mortgage on the new plant in Westborough, Massachusetts. There were no borrowings outstanding under the Company's $3,000,000 bank line of credit at fiscal year-end 2001. Stockholders' equity at June 30, 2001 increased by $70,910,000 from the year earlier to $149,139,000, primarily due to the 2001 net earnings, the secondary offering and stock option exercises and the related tax benefits, offset by the increase in treasury stock.

At June 30, 2000, working capital was $56,550,000, an increase of $12,784,000 from the amount at June 30, 1999, and the Company had cash and cash equivalents of $15,598,000 and marketable securities amounting to $8,268,000 for a total of $23,866,000. Accounts payable and accrued expenses increased by $4,629,000, while accounts receivable increased by $7,657,000. As of June 30, 2000, there were no borrowings outstanding under the Company's $3,000,000 bank line of credit. Stockholders' equity at June 30, 2000 increased by $9,517,000 from the year earlier to $78,229,000, largely as a result of stock option exercises and the related tax benefit and the Firefly acquisition.

Financial Market Risks The following discussion about our market risk involves forward-looking statements. Actual results could differ materially from those projected in the forward-looking statements. We are exposed to market risk related to changes in interest rates and foreign currency exchange rates. We do not use derivative financial instruments for speculative or trading purposes.

Interest Rate Sensitivity

We maintain a portfolio of cash equivalents and marketable securities including money market funds, commercial paper, corporate bonds and tax-exempt bonds. Our interest income on our variable rate investments are sensitive to changes in the general level of U.S. interest rates, particularly since the majority of our investments are short-term instruments. Due to the short-term nature of our investments, we do not believe that a material risk exposure exists.

During fiscal 2001 the Company entered into a mortgage on its Westborough, Massachusetts facility of $12,560,000 at an interest rate of LIBOR plus 100 basis points (4.5% at June 30, 2001) which is payable in full on May 14, 2007. In conjunction with the mortgage, the Company entered into an interest rate swap agreement that provides for a fixed interest rate of approximately 7% for the duration of the mortgage. Due to the existence of the swap agreement, we do not believe that a material risk exposure exists.

Exchange Rate Sensitivity

Substantially all of the Company's sales and costs are negotiated and paid in U.S. dollars. Significant changes in the values of foreign currencies relative to the value of the U.S. dollar can impact the sales of the Company's products in its export markets as would changes in the general economic conditions in those markets. The impact of such changes in foreign currency values on the Company's sales cannot be measured.

Effects of Recent Accounting Pronouncements In June 1998 and June 1999, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended, which establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities. Under SFAS No. 133, certain contracts that were not formerly considered derivatives may now meet the definition of a derivative. It requires that an entity recognize all derivatives as either assets or liabilities in the statements of financial position and measure those instruments at fair value. In addition, SFAS No. 133 permits hedge accounting when certain conditions are met. SFAS No. 133, as amended by SFAS No. 137 and No. 138 is effective for all fiscal quarters of fiscal years beginning after June 15, 2000. The adoption of SFAS No. 133 did not have a material effect on our results of operations or financial position.

In December 1999, the Securities and Exchange Commission issued Staff Accounting Bulletin (SAB) No. 101, "Revenue Recognition in Financial Statements." SAB No. 101 summarizes the views of the SEC staff in applying accounting principles generally accepted in the United States to revenue recognition in financial statements. Subsequently, the SEC issued SAB No. 101A and SAB No. 101B, "Amendment: Revenue Recognition in Financial Statements," that delays the implementation date of certain provisions of SAB No. 101. The adoption of SAB No. 101 in the fourth quarter of fiscal 2001 did not have a material effect on our results of operations or financial position.

In March 2000, the FASB issued Interpretation No. 44, "Accounting for Certain Transactions involving Stock Compensation, an interpretation of APB Opinion No. 25." The Interpretation answers questions dealing with APB No. 25 implementation practice issues. Interpretation No. 44 is applied prospectively to new awards, modifications to outstanding awards, and changes in employee status on or after July 1, 2000, except as follows: (a) requirements related to the definition of an employee apply to new awards granted after December 15, 1998; (b) modifications that directly or indirectly reduce the exercise price of an award apply to modifications made after December 15, 1998; and (c) modifications to add a reload feature to an award apply to modifications made after January 12, 2000. Financial statements for periods prior to July 1, 2000 will not be affected. The adoption of Interpretation No. 44 did not have a material impact on our results of operations or financial position.

In September 2000, the FASB's Emerging Issues Task Force (EITF) released its discussion on EITF Issue No. 00-10, "Accounting for Shipping and Handling Fees and Costs." EITF No. 00-10 sets forth guidance on how a seller of goods should classify in the income statement (a) amounts billed to a customer for shipping and handling and (b) costs incurred for shipping and handling. The adoption of EITF Issue No. 00-10 did not have a material impact on our results of operations or financial position.

In June 2001, the FASB issued SFAS No. 141, "Business Combinations" which addresses the financial accounting and reporting for business combinations and supersedes Accounting Principles Board (APB) Opinion No. 16, "Business Combinations," and SFAS No. 38, "Accounting for Preacquisition Contingencies of Purchased Enterprises." SFAS No. 141 requires that all business combinations be accounted for by a single method, the purchase method, modifies the criteria for recognizing intangible assets, and expands disclosure requirements. The provisions of SFAS No. 141 apply to all business combinations initiated after June 30, 2001.

In June 2001, the FASB issued SFAS No. 142, "Goodwill and Other Intangible Assets" which addresses financial accounting and reporting for acquired goodwill and other intangible assets and supersedes APB No. 17, "Intangible

Assets." SFAS No. 142 addresses how intangible assets that are acquired individually or with a group of other assets should be accounted for in financial statements upon their acquisition and after they have been initially recognized in the financial statements. SFAS No. 142 requires that goodwill and intangible assets that have indefinite useful lives not be amortized but rather tested at least annually for impairment, and intangible assets that have finite useful lives be amortized over their useful lives. SFAS No. 142 provides specific guidance for testing, goodwill and intangible assets that will not be amortized for impairment. In addition, SFAS No. 142 expands the disclosure requirements for goodwill and other intangible assets in the years subsequent to their acquisition. SFAS No. 142 is effective for our fiscal year 2003, with early adoption permitted at the beginning of our fiscal 2002. Impairment losses for goodwill and indefinite-life intangible assets that arise due to the initial application of SFAS No. 142 are to be reported as resulting from a change in accounting principle. However, goodwill and intangible assets acquired after June 30, 2001 will be subject immediately to provisions of SFAS No. 142. We are in the process of evaluating the impact that this SFAS will have on our results of operations and financial position.

Forward-Looking Statements This report contains statements which, to the extent they are not statements of historical or present fact constitute "forward-looking statements" under the securities laws. From time-to-time, oral or written forward-looking statements may also be included in other materials released to the public. These forward-looking statements are intended to provide management's current expectations or plans for the future operating and financial performance of the Company, based upon information currently available and assumptions currently believed to be valid. Forward-looking statements can be identified by the use of words such as "anticipate," "believe," "estimate," "expect," "intend," "plans," "strategy," "project" and other words of similar meaning in connection with a discussion of future operating or financial performance.

All forward-looking statements involve risks and uncertainties that may cause actual results to differ materially from those expressed or implied in the forward-looking statements. The following important business risks and factors could cause the Company's actual results to differ materially from those stated in the forward-looking statements.

Impact of Slowing Economy

The overall economy is in the midst of a sharp slowdown that could have a significant impact in the Company's near-term financial results as the Company's customers buy fewer products and services. The impact of this slowdown is evident in the significant decrease in the backlog between the third and fourth quarters in fiscal 2001 from the semiconductor and telecommunications markets.

Uncertainty of Current Economic Conditions

Current conditions in the domestic and global economies are extremely uncertain. As a result, it is difficult to estimate the level of growth for the economy as a whole. It is even more difficult to estimate growth in capital expenditures in the semiconductor, industrial and telecommunications markets. Because all of the components of the Company's budgeting and forecasting are dependent on estimate of growth in these markets, the prevailing economic uncertainty renders estimates of future revenue and expenses even more difficult than usual to make.

Technology Change and New Product Development

The market for the Company's products is characterized by rapidly changing technology. The Company's future success will continue to depend upon its ability to enhance current products and develop and introduce new products that keep pace with technological developments and evolving industry standards and respond to changes in customer requirements. The development of new, technologically advanced products is a complex and uncertain process requiring high levels of innovation, as well as the accurate anticipation of technological and market trends.

For additional information identifying important factors that may cause actual results to differ materially from those stated in the forward-looking statements, see the Company's reports on Forms 10-K, 10-Q, and 8-K filed with the Securities and Exchange Commission.

(Thousands, except share amounts)	June 30, 2001	June 30, 2000
ASSETS		
Current assets:		
Cash and cash equivalents	**$ 52,630**	$ 15,598
Marketable securities (Note 3)	**7,121**	8,268
Receivables (Note 4)	**27,278**	20,138
Income taxes receivable	**—**	866
Inventories (Note 5)	**24,261**	11,879
Costs in excess of billings (Note 6)	**1,802**	5,743
Prepaid expenses	**1,393**	1,173
Deferred income taxes (Note 17)	**4,076**	9,020
Total current assets	**118,561**	72,685
Property, plant and equipment, net (Notes 7 and 11)	**47,475**	18,493
Deferred income taxes (Note 17)	**15,819**	—
Goodwill and other intangibles, net (Note 8)	**4,867**	3,078
Other assets	**110**	906
Total assets	**$ 186,832**	$ 95,162
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt (Note 10)	**$ 279**	$ —
Accounts payable	**8,648**	8,380
Accrued expenses and progress payments	**549**	279
Accrued salaries and wages	**7,153**	3,485
Other accrued expenses	**4,688**	3,934
Income taxes payable	**3,132**	57
Total current liabilities	**24,449**	16,135
Long-term debt (Note 10)	**12,281**	84
Deferred income taxes (Note 17)	**—**	271
Minority interest	**963**	443
Stockholders' equity (Notes 13, 14, 15 and 16):		
Common stock, $.10 par value per share:		
40,000,000 shares authorized (15,000,000 in 2000);		
17,803,812 shares issued (14,441,231 in 2000);		
17,356,607 shares outstanding (14,233,631 in 2000)	**1,780**	1,444
Additional paid-in capital	**134,380**	68,304
Retained earnings	**19,714**	9,055
Accumulated other comprehensive income:		
Currency translation effects	**(1,786)**	(182)
Net unrealized gain on swap agreement (Note 10)	**31**	—
Net unrealized gain (loss) on marketable securities (Note 3)	**37**	(91)
	154,156	78,530
Less treasury stock, at cost; 447,205 common shares (207,600 shares in 2000)	**5,017**	301
Total stockholders' equity	**149,139**	78,229
Total liabilities and stockholders' equity	**$ 186,832**	$ 95,162

The accompanying notes are an integral part of these consolidated financial statements.

(Thousands, except per share amounts)	Fiscal Year Ended June 30, 2001	2000	1999
Net sales (Notes 18 and 19)	**$ 133,250**	$ 87,243	$ 63,382
Cost of goods sold	**72,081**	54,688	40,997
Gross profit	**61,169**	32,555	22,385
Selling, general and administrative expenses	**29,119**	18,504	19,633
Research and development	**17,673**	11,270	9,185
Nonrecurring acquisition-related charges	**—**	14,001	—
Amortization and impairment of goodwill and other intangibles (Note 2)	**797**	7,102	1,258
Operating profit (loss)	**13,580**	(18,322)	(7,691)
Other income (expense):			
Interest income	**1,641**	1,250	1,148
Miscellaneous expense, net	**(526)**	(240)	(308)
Total other income	**1,115**	1,010	840
Earnings (loss) before income taxes and minority interest	**14,695**	(17,312)	(6,851)
Income tax expense (benefit) (Note 17)	**3,454**	(1,459)	(2,975)
Earnings (loss) before minority interest	**11,241**	(15,853)	(3,876)
Minority interest	**582**	194	—
Net earnings (loss)	**$ 10,659**	$ (16,047)	$ (3,876)
Earnings (loss) per common and common equivalent share:			
Basic	**$ 0.69**	$ (1.28)	$ (0.33)
Diluted	**$ 0.66**	$ (1.28)	$ (0.33)
Weighted average common shares and common dilutive equivalents outstanding:			
Basic	**15,398**	12,511	11,780
Diluted	**16,063**	12,511	11,780

The accompanying notes are an integral part of these consolidated financial statements.

(Thousands of dollars)	Total	Comp. Income	Retained Earnings	Accum. Other Comp. Income	Common Stock	Treasury Stock	Paid-In Capital
Balance at June 30, 1998	$ 72,391		$28,978	$ 15	$1,352	$ (301)	$ 42,347
Comprehensive loss							
Net loss	(3,876)	$ (3,876)	(3,876)				
Other comprehensive loss, net of tax							
Unrealized loss on marketable securities	(83)	(83)					
Foreign currency translation effect	(58)	(58)					
Other comprehensive loss		(141)		(141)			
Comprehensive loss		(4,017)					
Exercise of employee stock options and related tax effect	338				18		320
Balance at June 30, 1999	$ 68,712		$25,102	$ (126)	$1,370	$ (301)	$ 42,667
Comprehensive loss							
Net loss	(16,047)	(16,047)	(16,047)				
Other comprehensive loss, net of tax							
Unrealized loss on marketable securities	(22)	(22)					
Foreign currency translation effect	(125)	(125)					
Other comprehensive loss		(147)		(147)			
Comprehensive loss		(16,194)					
Unearned compensation	12,024						12,024
Exercise of employee stock options and related tax effect	13,687				74		13,613
Balance at June 30, 2000	$ 78,229		$ 9,055	$ (273)	$1,444	$ (301)	$ 68,304
Comprehensive income							
Net earnings	10,659	10,659	10,659				
Other comprehensive income (loss), net of tax							
Unrealized gain on marketable securities, net of related tax effect	128	128					
Unrealized gain on Swap Agreement	31	31					
Foreign currency translation effect	(1,604)	(1,604)					
Other comprehensive income		(1,445)		(1,445)			
Comprehensive income		$ 9,214					
Repurchased common stock, net of adjustment	(4,716)					(4,716)	
Secondary offering	51,824				292		51,532
Exercise of employee stock options and related tax effect	14,588				44		14,544
Balance at June 30, 2001	$149,139		$19,714	$(1,718)	$1,780	$(5,017)	$134,380

The accompanying notes are an integral part of these consolidated financial statements.

(Thousands of dollars)	**2001**	Fiscal Year Ended June 30, 2000	1999
Cash provided by (used for) operating activities:			
Net earnings (loss)	**$ 10,659**	$ (16,047)	$ (3,876)
Adjustments to reconcile net earnings to cash provided by (used for) operating activities:			
Depreciation and amortization	**3,996**	11,318	4,448
Deferred income taxes	**2,446**	(7,247)	(1,540)
Loss on disposal of assets	**869**	1,176	662
Unearned compensation related to stock options	**—**	12,024	—
Loss on sale of marketable securities	**—**	—	(38)
Changes in operating accounts:			
Receivables	**(7,140)**	(7,657)	4,074
Costs in excess of billings	**3,942**	(5,083)	522
Inventories	**(12,382)**	3,594	(1,043)
Prepaid expenses and taxes	**3,721**	4,770	42
Accounts payable and accrued expenses	**3,306**	4,654	(5,252)
Minority interest	**520**	194	—
Net cash provided by (used for) operating activities	**9,937**	(1,696)	(2,001)
Cash provided by (used for) investing activities:			
Additions to property, plant and equipment	**(33,050)**	(6,513)	(4,372)
Investment in marketable securities	**(2,155)**	(2,466)	(11,860)
Investments in other assets	**(1,790)**	—	(2,958)
Proceeds from the sale of marketable securities	**2,250**	—	8,616
Proceeds from maturity of marketable securities	**1,180**	2,500	3,045
Net cash used for investing activities	**(33,565)**	(6,479)	(7,529)
Cash provided by (used for) financing activities:			
Proceeds (repayments) of debt	**12,556**	48	(125)
Exercise of employee stock options	**996**	7,062	338
Issuance and repurchase of common stock	**47,108**	—	—
Contributions from minority interest of consolidated subsidiaries	**—**	249	—
Net cash provided by financing activities	**60,660**	7,359	213
Net increase (decrease) in cash and cash equivalents	**37,032**	2,576	(9,317)
Cash and cash equivalents, beginning of year	**15,598**	13,022	22,339
Cash and cash equivalents, end of year	**$ 52,630**	$ 15,598	$ 13,022

The accompanying notes are an integral part of these consolidated financial statements.

THOUSANDS, EXCEPT FOR SHARE AND PER SHARE AMOUNTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation The accompanying consolidated financial statements include the accounts of Zygo Corporation and its subsidiaries ("ZYGO" or the "Company"). All material transactions and accounts with the subsidiaries have been eliminated from the consolidated financial statements. As discussed in Note 2, all the outstanding shares of Firefly Technologies, Inc. ("Firefly") were acquired by the Company on May 5, 2000, in a transaction accounted for as a pooling-of-interests. Accordingly the financial statements of the Company have been restated to reflect the merger as if it had occurred on July 1, 1997.

Cash and Cash Equivalents The Company considers cash and cash investments with maturities at the date of purchase of three months or less to be cash and cash equivalents.

Marketable Securities The Company considers investments in securities with maturities at the date of purchase in excess of three months as marketable securities. Marketable securities primarily consist of corporate and tax exempt bonds. All securities held by the Company at June 30, 2001 and 2000, were classified as available-for-sale and recorded at fair value or held to maturity and recorded at cost. Unrealized holding gains and losses, net of the related tax effect, on available-for-sale securities are excluded from earnings and are reported as a separate component of stockholders' equity until realized.

Inventories Inventories are stated at the lower of cost (determined on a first-in, first-out basis) or market.

Depreciation Depreciation is based on the estimated useful lives of the various classes of assets and is computed using the straight-line method. See Note 7.

Impairment of Long-Lived Assets As required by Statement of Financial Accounting Standards No. 121, *Accounting for the Impairment of Long-Lived Assets for Long-Lived Assets to Be Disposed Of*, the Company evaluates the carrying value of its long-lived and intangible assets at each balance sheet date to determine if impairment exists based upon estimated undiscounted future cash flows. The impairment, if any, is measured by the difference between carrying value and estimated fair value and charged to expense in the period identified. The remaining amortization periods are periodically evaluated and would be revised if considered necessary. See Notes 8 and 20.

Revenue Recognition Revenues, other than revenue under the National Ignition Facility ("NIF") contract (Note 20) and revenue from certain automation contracts (Note 6), are recognized when units are shipped. Revenues related to NIF and certain automation contracts are recognized under the percentage-of-completion method of accounting.

In December 1999, the Securities and Exchange Commission ("SEC") issued SEC Staff Accounting Bulletin ("SAB") No. 101, "Revenue Recognition in Financial Statements." SAB 101 summarized certain of the SEC's views in applying generally accepted accounting principles to revenue recognition in financial statements. SAB 101 was effective for ZYGO in the fourth quarter of fiscal 2001. The adoption of SAB 101 did not have a material effect on ZYGO's financial position or results of operations.

Earnings Per Share Basic and diluted earnings per share are calculated in accordance with Statement of Financial Accounting Standards No. 128, "Earnings Per Share."

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

	June 30, 2001	June 30, 2000	June 30, 1999
Weighted average shares outstanding	**15,398**	12,511	11,780
Dilutive effect of stock options	**665**	—	—
Diluted weighted average shares outstanding	**16,063**	12,511	11,780

During 2000 and 1999, the Company recorded a loss and all options were excluded from the computation because of the anti-dilutive effect on earnings per share.

Gain Contingency The Company was awarded $2,669 plus recovery of certain costs in a judgment rendered by the United States District Court (District of Arizona) on June 2, 1994. The Court's decision was appealed to the Court of Appeals for the Federal Circuit located in Washington, D.C. by the defendant and oral arguments of the appeal were heard by the Court on March 9, 1995. On April 1, 1996, the United States Court of Appeals for the Federal Circuit rendered an Opinion Announcing Judgment of the Court. The appellate court affirmed-in-part and reversed-in-part the District Court's earlier findings and remanded the case to the District Court for a redetermination of the damage award. ZYGO recorded a gain of $1 million in the third quarter of 2000 when the Company received the proceeds from this settlement.

Stock-Based Compensation Stock-based compensation awards to employees under the Company's stock plans are accounted for using the intrinsic value method prescribed in Accounting Principals Board Opinion ("APB") No. 25, "Accounting for Stock Issued to Employees" and related interpretations. The Company has adopted the disclosure requirements of Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation."

The Company follows the practice of recording amounts received upon the exercise of options by crediting common stock and additional capital. Except as discussed in Note 2, no charges are reflected in the consolidated statements of operations as a result of the grant or exercise of stock options, which are granted with an exercise price at fair market value on the date of grant. The Company realizes an income tax benefit from the exercise or early disposition of certain stock options. This benefit results in a decrease in current income taxes payable and an increase in additional paid-in capital.

Fair Value of Financial Instruments Statement of Financial Accounting Standards No. 107, *Disclosures about Fair Value of Financial Instruments*, requires that reporting entities provide, to the extent practicable, the fair value of financial instruments, both assets and liabilities. The carrying amounts of cash, accounts receivable, accounts payable, and accrued expenses approximate fair value because of the short maturity of these items.

Use of Estimates Management of the Company has made a number of estimates and assumptions relating to the reporting of assets, liabilities, revenues and expenses and the disclosure of contingent assets and liabilities to prepare these consolidated financial statements in conformity with accounting principles generally accepted in the United States of America. Actual results could differ from those estimates.

Recently Issued Accounting Pronouncements In June 1998 and June 1999, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended, which establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities. Under SFAS No. 133, certain contracts that were not formerly considered derivatives may now meet the definition of a derivative. It requires that an entity recognize all derivatives as either assets or liabilities in the statements of financial position and measure those instruments at fair value. In addition, SFAS No. 133 permits hedge accounting when certain conditions are met. SFAS No. 133, as amended by SFAS No. 137 and No. 138 is effective for all fiscal quarters of fiscal years beginning after June 15, 2000. The adoption of SFAS No. 133 did not have a material effect our results of operations or financial position.

In December 1999, the Securities and Exchange Commission issued Staff Accounting Bulletin (SAB) No. 101, "Revenue Recognition in Financial Statements." SAB No. 101 summarizes the views of the SEC staff in applying accounting principles generally accepted in the United States to revenue recognition in financial statements. Subsequently, the SEC issued SAB No. 101A and SAB No. 101B, "Amendment: Revenue Recognition in Financial Statements, " that delays the implementation date of certain provisions of SAB No. 101. The adoption of SAB No. 101 in the fourth quarter of fiscal 2001 did not have a material effect on our results of operations or financial position.

In March 2000, the FASB issued Interpretation No. 44, "Accounting for Certain Transactions involving Stock Compensation, an interpretation of APB Opinion No. 25." The Interpretation answers questions dealing with APB No. 25 implementation practice issues. Interpretation No. 44 is applied prospectively to new awards, modifications to outstanding awards, and changes in employee status on or after July 1, 2000, except as follows: (a) requirements related to the definition of an employee apply to new awards granted after December 15, 1998: (b) modifications that directly or indirectly reduce the exercise price of an award apply to modifications made after December 15, 1998; and (c) modifications to add a reload feature to an award apply to modifications made after January 12, 2000. Financial statements for periods prior to July 1, 2000 will not be affected. The adoption of Interpretation No. 44 did not have a material impact on our results of operations or financial position.

In September 2000, the FASB's Emerging Issues Task Force (EITF) released its discussion on EITF Issue No. 00-10, "Accounting for Shipping and Handling Fees and Costs." EITF No. 00-10 sets forth guidance on how a seller of goods should classify in the income statement (a) amounts billed to a customer for shipping and handling and (b) costs incurred for shipping and handling. The adoption of EITF Issue No. 00-10 did not have a material impact on our results of operations or financial position.

In June 2001, the FASB issued SFAS No. 141, "Business Combinations" which addresses the financial accounting and reporting for business combinations and supersedes Accounting Principles Board (APB) Opinion No. 16, "Business Combinations," and SFAS No. 38, "Accounting for Preacquisition Contingencies of Purchased Enterprises." SFAS No. 141 requires that all business combinations be accounted for by a single method, the purchase method, modifies the criteria for recognizing intangible assets, and expands disclosure requirements. The provisions of SFAS No. 141 apply to all business combinations initiated after June 30, 2001. We do not expect the adoption of SFAS No. 141 to have a material effect on our results of operations or statements of financial position.

In June 2001, the FASB issued SFAS No. 142, "Goodwill and Other Intangible Assets" which addresses financial accounting and reporting for acquired goodwill and other intangible assets and supersedes APB No. 17, "Intangible Assets." SFAS No. 142 addresses how intangible assets that are acquired individually or with a group of other assets should be accounted for in financial statements upon their acquisition and after they have been initially recognized in the financial statements. SFAS No. 142 requires that goodwill and intangible assets that have indefinite useful lives not be amortized but rather tested at least annually for impairment, and intangible assets that have finite useful lives be amortized over their useful lives. SFAS No. 142 provides specific guidance for testing, goodwill and intangible assets that will not be amortized for impairment. In addition, SFAS No. 142 expands the disclosure requirements for goodwill and other intangible assets in the years subsequent to their acquisition. SFAS No. 142 is effective for our fiscal year 2003, with early adoption permitted at the beginning of our fiscal 2002. Impairment losses for goodwill and indefinite-life intangible assets that arise due to the initial application of SFAS No. 142 are to be reported as resulting from a change in accounting principle. However, goodwill and intangible assets acquired after June 30, 2001 will be subject immediately to provisions of SFAS No. 142. We are in the process of evaluating the impact that this SFAS will have on our results of operations and financial position.

2. MERGERS, ACQUISITIONS, AND STRATEGIC INITIATIVES

On May 5, 2000, the Company entered into an agreement and plan of merger with Firefly Technologies, Inc. ("Firefly"), a Delaware corporation, Zygo TeraOptix, Inc. ("Zygo TeraOptix"), a Delaware corporation and a wholly-owned subsidiary of the Company, and the security holders of Firefly, pursuant to which the Company agreed to acquire Firefly. Immediately thereafter, the acquisition was consummated by the merger of Zygo TeraOptix with and into Firefly and Firefly became a wholly-owned subsidiary of the Company under the new name Zygo TeraOptix.

Under the terms of the acquisition, the Company exchanged an aggregate of 2,303,937 shares of its common stock, $.10 par value per share, for all of the then outstanding capital stock and stock options of Firefly. The acquisition, which is intended to be tax free for federal income tax purposes to the Firefly securityholders, has been accounted for as a pooling-of-interest transaction. Firefly manufactures metrology equipment, micro-optics, switches and filters for the telecommunications industry, as well as heads and related products for the optical data storage industry. The telecommunications components are used in wave division multiplexers to increase the capacity of optical fibers. The Company intends to continue to use the assets acquired in the acquisition for these purposes.

Related to the transaction and the vesting of certain Firefly stock options, the Company has recorded approximately $12,024 of additional compensation expense and, in addition, recorded $1,977 in acquisition related costs for legal, investment banking and accounting fees in fiscal 2000.

In the fourth quarter of fiscal 2000, the Company decided to discontinue its investment in certain product lines, which were no longer compatible with its strategic plan. Related to the discontinuance of these product lines, the Company recorded approximately $10,567 of charges in the fourth quarter of fiscal year 2000 which consisted of the write-down of goodwill and other intangible assets ($5,478) and inventory ($5,089) which the Company will no longer continue to develop.

On September 1, 1997, the Company, through its Technical Instruments subsidiary, completed the purchase of the remaining 50% of Syncotec Neue Technologien und Instrumente GmbH ("Syncotec") the Company did not already own. The Company paid $2,262 and issued 19,432 shares of common stock, $.10 par value, valued at $623. The transaction was accounted for as a purchase. The net purchase price was allocated to the fair value of the net assets acquired. This allocation resulted in a charge of $878 of in-process research and development costs.

3. MARKETABLE SECURITIES

Marketable securities consisted primarily of corporate bonds and tax-exempt bonds issued by various state and municipal agencies for both 2001 and 2000. Marketable securities at June 30, 2001 and June 30, 2000 are reported either at fair value or at cost depending on their classification. The unrealized gain on marketable securities of $51 (gross) is shown net of its related tax effect of $37 as a separate component of stockholders' equity.

Dividend and interest income is recognized when earned. Realized gains and losses are included in earnings and are derived using the specific identification method for determining the cost of securities sold.

The cost, gross unrealized holding gains (losses), and fair value for available-for-sale securities at June 30, 2001 and 2000 were as follows:

	Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Fair Value
At June 30, 2001				
Corporate bonds, state and local municipal bonds	**$ 5,320**	**$ 51**	**$ —**	**$ 5,371**
At June 30, 2000				
Corporate bonds, state and local municipal bonds	$7,240	$ —	$(154)	$7,086

There were no gross realized gains or losses recorded in 2001 or 2000.

Maturities of investment securities classified as available-for-sale were as follows at June 30, 2001 and 2000:

	June 30, 2001		June 30, 2000	
	Cost	**Fair Value**	Cost	Fair Value
Due within one year	**$ —**	**$ —**	$ —	$ —
Due after one year through five years	**5,320**	**5,371**	7,240	7,086
	$ 5,320	**$ 5,371**	$ 7,240	$ 7,086

Maturities of investment securities classified as held-to-maturity were as follows at June 30, 2001 and 2000:

	June 30, 2001		June 30, 2000	
	Cost	**Fair Value**	Cost	Fair Value
Due within one year	**$ 1,750**	**$ 1,750**	$ 1,182	$ 1,182
Due after one year through five years	**—**	**—**	—	—
	$ 1,750	**$ 1,750**	$ 1,182	$ 1,182

4. ACCOUNTS RECEIVABLE

At June 30, 2001 and 2000, accounts receivable, net of allowances, were as follows:

	June 30, 2001	June 30, 2000
Trade (Note 19)	**$ 25,644**	$ 19,293
Other	**2,015**	1,079
	27,659	20,372
Allowance	**(381)**	(234)
	$ 27,278	$ 20,138

5. INVENTORIES

At June 30, 2001 and 2000, inventories, net of reserves, were as follows:

	June 30, 2001	June 30, 2000
Raw materials and manufactured parts	**$ 20,359**	$ 9,759
Work in process	**5,674**	3,471
Finished goods	**1,308**	1,496
	27,341	14,726
Reserves	**(3,080)**	(2,847)
	$ 24,261	$ 11,879

6. COSTS IN EXCESS OF BILLINGS

Revenues from automation projects are accounted for under the percentage-of-completion method, using total project costs incurred to date in relation to estimated total costs of the contracts to measure the stage of completion. The cumulative effects of revisions of estimated total contract costs and revenues are recorded in the period in which the facts become known. When a loss is anticipated on a contract, the full amount of the loss is provided for currently. The differences between amounts billed and revenue recognized is shown as costs in excess of billings on the accompanying balance sheets.

Totals of revenue earned and billings issued on contracts were as follows:

	June 30, 2001	June 30, 2000
Revenue recognized to date	**$ 50,529**	$ 37,069
Billings to date	**48,727**	31,326
	$ 1,802	$ 5,743

7. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated at cost. Costs of additions, replacements and improvements are capitalized and depreciated over a range of 3–40 years. Maintenance and repairs are charged to expense as incurred. At June 30, 2001 and 2000, property, plant and equipment, at cost, were as follows:

	June 30, 2001	June 30, 2000
Land	**$ 3,778**	$ 897
Building	**9,199**	9,115
Machinery, equipment and office furniture	**31,101**	23,839
Leasehold improvements	**625**	519
Construction in progress	**23,849**	3,621
	68,552	37,991
Less accumulated depreciation	**21,077**	19,498
	$ 47,475	$ 18,493

8. GOODWILL AND OTHER INTANGIBLES

The cost of goodwill and other intangible assets is amortized on a straight-line basis, which ranges from 4–20 years. Management evaluates, on an ongoing basis, the carrying value of its goodwill and other intangible assets and makes adjustments, when impairments are identified. Goodwill and other intangibles, net, at June 30, 2001 and 2000 were as follows:

	June 30, 2001	June 30, 2000
Goodwill and other intangibles	**$ 7,726**	$ 5,140
Accumulated amortization	**2,859**	2,062
	$ 4,867	$ 3,078

9. BANK LINE OF CREDIT

The Company has a $3,000 unsecured bank line of credit with interest at LIBOR plus 60 basis points (approximately 4.5% at June 30, 2001). The line of credit is available through November 22, 2001. At June 30, 2001 and 2000, no amounts were outstanding under the bank line of credit.

10. LONG-TERM DEBT

On May 14, 2001, the Company entered into a mortgage on the newly constructed facility located in Westborough, Massachusetts. The mortgage amount is $12,560 at an interest rate of LIBOR plus 100 basis points (approximately 4.5% at June 30, 2001) and is payable in full on May 14, 2007. Interest only payments are to be made through February 14, 2002. The mortgage is amortizing on a 15-year level amortization schedule requiring level monthly principal and interest payments. As of June 30, 2001, long-term debt was $12,281 with a current portion of long-term debt of $279. The agreement contains financial covenants, which among others relate to debt service and consolidated debt ratios. As of June 30, 2001, the Company is in compliance with the financial covenants.

In conjunction with the mortgage, the Company entered into an interest rate swap agreement that provides for a fixed interest rate of approximately 7% for the duration of the mortgage. As of June 30, 2001, the market value of the agreement is $31 and is recorded as an asset with a corresponding charge to stockholders' equity.

Interest payments on debt and capital leases were $107, $6 and $11 in fiscal 2001, 2000, and 1999, respectively.

11. LEASES

The Company leases certain manufacturing equipment and facilities under operating leases, some of which include cost escalation clauses, expiring on various dates through 2006. Total rental expense charged to operations was $1,562 in 2001, $986 in 2000, and $738 in 1999. At June 30, 2001 the minimum future rental commitments under noncancellable leases payable over the remaining lives of the leases were:

Year ended June 30,	Capital	Operating
2002	$ 33	$ 1,798
2003	—	1,448
2004	—	1,151
2005	—	925
2006	—	745
Total minimum lease payments	33	$ 6,067
Less amount representing interest	3	
Present value of minimum lease payments	30	
Less current portion of capital lease obligations	30	
Capital lease obligation, excluding current portion	$ —	

12. PROFIT-SHARING PLAN

The Company maintains a deferred profit-sharing plan under which substantially all full-time employees of the Company are eligible to participate. Profit-sharing expense for the years ended June 30, 2001, 2000, and 1999, amounted to $2,516, $1,209, and $607, respectively. The profit-sharing plan consists of a cash distribution and a contribution to the Company's 401(k) program. Profit-sharing contributions are determined annually at the discretion of the Board of Directors. The cash distribution for the years ended June 30, 2001, 2000, and 1999, amounted to $930, $709, and $0, respectively.

Effective June 30, 1985, the existing profit-sharing plan was revised and amended to incorporate a 401(k) tax deferred payroll deduction program and an Employee Stock Ownership Program. Under the 401(k) program, employees may contribute a tax-deferred amount of up to 15% of their compensation, as defined. The Company may contribute to the 401(k) program, an amount determined annually at the discretion of the Board of Directors. The 401(k) contribution expense for the years ended June 30, 2001, 2000, and 1999 amounted to $1,586, $500, and $607, respectively.

As of January 1, 2001, the employees of Zygo TeraOptix have been incorporated into the Company's 401(k) program for fiscal year 2001. Prior to January 1, 2001, the Company maintained a separate defined contribution retirement plan for the employees of Zygo TeraOptix. The plan allowed employees to participate after three months of employment with the Company by deferring up to 15% of their salary on a pre-tax basis, and allowed the Company to make discretionary contributions to the plan, which were allocated to the participants' accounts. The Company did not make any contributions to the plan through January 1, 2001.

THOUSANDS, EXCEPT FOR SHARE AND PER SHARE AMOUNTS

Under the Employee Stock Ownership Program, the Company may, at the discretion of the Board of Directors, contribute its own stock or contribute cash to purchase its own stock. The purchased stock's fair market value cannot exceed the maximum amount of employee stock ownership credit as determined under Section 416 of the Internal Revenue Code. There were no purchases and no contributions made under this program for the years ended June 30, 2001, 2000, and 1999.

13. STOCKHOLDERS' EQUITY

On July 31, 2000, the shareholders voted to increase the number of authorized shares of common stock from 15 million to 40 million.

On March 7, 2001 the Company closed a secondary public offering of 2,924,500 shares of common stock including 424,500 shares sold to underwriters to cover over-allotments. The offering price was $19 per share. The net proceeds to the Company including the over-allotment shares, after deducting underwriting discounts, commissions and offering expenses totaled $51,824.

On April 11, 2001, the Company purchased 239,605 shares of its common stock from two officers and directors, pursuant to stock purchase agreements; all at a price per share of $20.81 (the closing price of the common stock in the public markets on that day) for $4,986. The funding for the purchase came from cash balances. The purpose of the purchase was to allow these two officers and directors to satisfy their tax obligations arising from the Firefly acquisition, in which they were principal stockholders, and to satisfy and extinguish the margin loans they incurred to pay additional taxes, which arose from the acquisition of Firefly and were due prior to the date the Company made the loans. The common stock purchased is being held as treasury stock.

14. STOCK COMPENSATION PLANS

As of June 30, 2001, Zygo Corporation has two stock based compensation plans, which are described below (see Note 15). The Company applies APB Opinion No. 25, *Accounting for Stock Issued to Employees*, and related interpretations in accounting for its plans. Since all options were granted with an exercise price equal to the fair market value on the date of the grant, no compensation cost has been recognized for its fixed option plans. Pro forma information regarding net income and earnings per share is required by SFAS No. 123, *Accounting for Stock-Based Compensation*, which requires that the information be determined as if the Company has accounted for its stock options granted in fiscal years beginning after December 15, 1994 under the fair value method of the statement.

The fair value of options at date of grant was estimated using the Black-Scholes model. The Company's pro forma information is as follows:

	June 30, 2001	June 30, 2000	June 30, 1999
Pro forma net income (loss)	**$ 9,952**	$(16,930)	$ (4,697)
Pro forma earnings (loss) per share, diluted	**$ 0.62**	$ (1.35)	$ (0.40)

The fair value of these options at the date of grant was estimated with the following weighted average assumptions of 2001 and 2000:

	June 30, 2001	June 30, 2000	June 30, 1999
Risk free rate of interest	**5.0%**	5.9%	4.8%
Dividend yield	**0.0%**	0.0%	0.0%
Volatility factor	**77%**	67%	58%
Expected life of option	**4.8 years**	5.6 years	5.7 years

The above pro forma information is based on historical activity and may not represent future trends.

On June 26, 2001, the Board of Directors granted an option to purchase 25,000 shares of the Company's common stock to the Zetetic Institute, a non-profit organization that provides assistance to the Company in connection with certain research and development activities. The option has an exercise price of $18.64 per share, the closing price of the common stock on the date of the grant, and will vest, in equal annual increments, over the four-year period following the date of grant.

15. STOCK OPTION PLANS

Employee Stock Option Plan and Data The Zygo Corporation Amended and Restated Non-Qualified Stock Option Plan permits the granting of non-qualified options to purchase a total of 4,850,000 shares (adjusted for splits) of common stock at prices not less than the fair market value on the date of grant. Options generally become exercisable at the rate of 25% of the shares each year commencing one year after the date of grant. The Plan as amended will expire on September 3, 2002.

	June 30, 2001	
	Shares	**Weighted Average Exercise Price**
Outstanding at beginning of year	**798,299**	**$ 10.0199**
Granted	**1,386,436**	**$ 61.8101**
Exercised	**(347,463)**	**$ 3.5084**
Expired or canceled	**(58,964)**	**$ 58.5268**
Outstanding at end of year	**1,778,308**	**$ 50.2233**

	June 30, 2000	
	Shares	Weighted Average Exercise Price
Outstanding at beginning of year	1,245,299	$ 7.2277
Granted	182,650	$ 23.1386
Exercised	(519,200)	$ 7.2148
Expired or canceled	(110,450)	$ 13.2402
Outstanding at end of year	798,299	$ 10.0199

	June 30, 1999	
	Shares	Weighted Average Exercise Price
Outstanding at beginning of year	1,416,779	$ 7.2866
Granted	228,000	$ 10.5957
Exercised	(184,480)	$ 1.8362
Expired or canceled	(215,000)	$ 26.6993
Outstanding at end of year	1,245,299	$ 7.2277

Non-Employee Director Stock Option Plan and Data The Zygo Corporation Amended and Restated Non-Employee Director Stock Option Plan permits the granting of non-qualified options to purchase a total of 620,000 shares (adjusted for splits) of common stock at prices not less than the fair market value on the date of grant. Under the terms of the Plan, as amended on September 24, 1999, each new non-employee director (other than a person who was previously an employee of the Company or any of its subsidiaries) is granted an option to purchase 8,000 shares of common stock, generally, on his or her first day of service as a non-employee director; and each other non-employee director is granted an option to purchase 3,000 shares of common stock on an annual basis. All options are fully exercisable on the date of grant and have a 10-year term. The Plan, as amended, will expire on November 17, 2009.

	June 30, 2001	
	Shares	**Weighted Average Exercise Price**
Outstanding at beginning of year	**249,000**	**$ 5.7922**
Granted	**23,000**	**$ 55.8726**
Exercised	**(90,000)**	**$ 2.0000**
Expired or canceled	**—**	**$ —**
Outstanding at end of year	**182,000**	**$ 13.9963**

	June 30, 2000	
	Shares	Weighted Average Exercise Price
Outstanding at beginning of year	450,000	$ 6.2292
Granted	15,000	$ 17.2500
Exercised	(216,000)	$ 7.4983
Expired or canceled	—	$ —
Outstanding at end of year	249,000	$ 5.7922

	June 30, 1999	
	Shares	Weighted Average Exercise Price
Outstanding at beginning of year	450,000	$ 6.2292
Granted	—	$ —
Exercised	—	$ —
Expired or canceled	—	$ —
Outstanding at end of year	450,000	$ 6.2292

The following tables summarize information about all fixed stock options outstanding at June 30, 2001:

Options Outstanding

Range of Exercise Prices	Number Outstanding as of June 30, 2001	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price
$ 1.92 - $ 9.50	267,674	4.61	$ 4.1931
$ 10.56 - $ 13.38	163,875	7.35	$ 11.0178
$ 14.31 - $ 18.64	405,283	9.76	$ 18.4411
$ 18.82 - $ 43.06	196,360	8.05	$ 27.3266
$ 43.88 - $ 77.75	199,420	9.20	$ 66.7770
$ 78.00 - $ 80.13	8,100	9.06	$ 80.0988
$ 81.50 - $ 81.50	2,240	9.18	$ 81.5000
$ 83.00 - $ 83.00	126,000	9.23	$ 83.0000
$ 87.00 - $ 87.00	581,356	9.25	$ 87.0000
$ 90.81 - $ 90.81	10,000	9.00	$ 90.8100
$ 1.92 - $90.81	**1,960,308**	**8.43**	**$ 46.8599**

Options Exercisable

Range of Exercise Prices	Number Exercisable as of June 30, 2001	Weighted Average Exercise Price
$ 1.92 - $ 9.50	207,700	$ 2.7381
$ 10.56 - $ 13.38	67,875	$ 10,9442
$ 14.31 - $ 18.64	25,375	$ 16.3963
$ 18.82 - $ 43.06	87,325	$ 27.3800
$ 43.88 - $ 77.75	8,700	$ 54.1896
$ 78.00 - $ 80.13	8,000	$ 80.1250
$ 81.50 - $ 81.50	0	$ 0
$ 83.00 - $ 83.00	0	$ 0
$ 87.00 - $ 87.00	0	$ 0
$ 90.81 - $ 90.81	2,500	$ 90.8130
$ 1.92 - $90.81	**407,475**	**$ 13.3948**

As discussed in Note 2, the Company recorded approximately $12,024 of additional compensation expense to reflect the derived fair-market value of certain Firefly stock options, which were exercised by Firefly employees in connection with the exchange of Firefly capital stock and stock options for Zygo Corporation common stock. No Firefly options have been included in the tables above because all Firefly options were exercised and converted to ZYGO shares in connection with the merger.

16. EMPLOYEE STOCK PURCHASE PLAN

In November 2000, Zygo Corporation's Board of Directors adopted a non-compensatory Employee Stock Purchase Plan ("ESPP"). Under the ESPP, employees of the Company who elect to participate are granted options to purchase common stock at a 15 percent discount from the market value of such stock. The ESPP permits an enrolled employee to make contributions to purchase shares of common stock by having withheld from his or her salary an amount between 1 percent and 10 percent of compensation. The total number of shares of common stock that may be issued pursuant to options granted under the ESPP is approximately 500,000. At June 30, 2001, the Company had withheld $613 for purchase of shares under this plan; and in July 2001, issued approximately 32,000 shares of common stock.

17. INCOME TAXES

The components of income tax expense (benefit) for each year are as follows:

	Fiscal Year Ended June 30,		
	2001	2000	1999
Currently payable:			
Federal	**$ —**	$ 1,136	$(1,339)
State	**—**	(71)	101
Foreign	**1,008**	604	101
	$ 1,008	$ 1,669	$(1,137)
Deferred:			
Federal	**$ 2,328**	$(3,051)	$(1,034)
State	**118**	(77)	(755)
Foreign	**—**	—	(49)
	$ 2,446	$(3,128)	$(1,838)
Total income tax (benefit) expense	**$ 3,454**	$(1,459)	$(2,975)

Income taxes refunded amounted to $1,979, $2,539, and $848 in fiscal 2001, 2000, and 1999, respectively.

The total income tax expense (benefit) differs from the amount computed by applying the applicable U.S. federal income tax rate of 35% in each of the fiscal years 2001, 2000, and 1999 to earnings before income taxes for the following reasons:

	Fiscal Year Ended June 30,		
	2001	2000	1999
Computed "expected" tax expense (benefit)	**$ 5,143**	$(5,886)	$(2,400)
Increases (reductions) in taxes resulting from:			
Acquisition-related charges	**(1,112)**	4,329	—
State taxes, net of federal income tax benefit	**(331)**	(96)	(432)
Tax exempt interest income	**(43)**	(15)	(131)
FSC benefit	**(254)**	(300)	—
Change in valuation allowance	**619**	—	—
Research credit	**(1,114)**	(300)	(109)
Other, net	**546**	809	97
	$ 3,454	$(1,459)	$(2,975)

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities as of June 30, 2001 and 2000, are presented below:

	June 30, 2001	June 30, 2000
Deferred tax assets:		
Accounts receivable, principally due to the allowance for doubtful accounts	**$ 143**	$ 468
Accrued liabilities	**610**	395
Inventory valuation	**1,492**	1,412
Unrealized gain on marketable securities	**—**	57
One-time charges	**1,943**	2,140
Intangibles	**96**	245
Federal and state NOLs and credits	**17,486**	4,572
Other	**—**	30
	21,770	9,319
Less valuation allowance	**1,653**	—
Deferred tax asset	**20,117**	9,319
Deferred tax liabilities:		
Prepaid expenses	**(92)**	(39)
Plant and equipment, principally due to differences in depreciation expense	**(111)**	(516)
Intangibles	**—**	—
Unrealized gain on marketable securities	**(19)**	—
Other	**—**	(15)
Deferred tax liability	**(222)**	(570)
Net deferred tax asset	**$ 19,895**	$ 8,749

The net current deferred tax assets and net noncurrent deferred tax liabilities as recorded on the balance sheet as of June 30, 2001 and 2000 are as follows:

	June 30, 2001	June 30, 2000
Net current deferred tax asset	**$ 4,076**	$ 9,020
Net noncurrent deferred tax asset (liability)	**15,819**	(271)
Net deferred tax asset (liability)	**$ 19,895**	$ 8,749

The Company has recorded a valuation allowance to reflect the uncertainty of realizing certain state net operating loss carryforwards. The valuation allowance as of July 1, 2000 was $0. The net change in the total valuation allowance for the year ended June 30, 2001 was an increase of $1,653. Subsequently recognized tax benefits relating to the valuation allowance for deferred tax assets as of June 30, 2001 will be allocated as follows:

Income tax benefit	**$ 619**
Additional paid-in capital	**1,034**
	$ 1,653

Management believes it is more likely than not that the remaining net deferred tax assets of $19,895 will be realized as the results of future operations are expected to generate sufficient taxable income to do so.

At June 30, 2001, the Company's share of the cumulative undistributed earnings of foreign subsidiaries was $1,699. No provision has been made for U.S. or additional foreign taxes on the undistributed earnings of foreign subsidiaries since the Company intends to continue to reinvest these earnings. Determination of the amount of unrecognized deferred tax liability associated with these earnings is not practicable.

At June 30 2001, the Company has federal and state net operating loss carryforwards of approximately $36,507 and $50,500 which are available to reduce federal and state taxable income, if any, through 2019. The Company also has a federal general business credit carryforward of approximately $1,989, which is available to reduce federal taxable income, if any, through 2019.

During 2001, the Company realized tax benefits of approximately $6,889 from the exercise of stock options which was credited to consolidated stockholders' equity which is a non-cash transaction as it relates to the consolidated statement of cash flows.

18. SEGMENT REPORTING

The Company has adopted the Financial Accounting Standards Board ("FASB") Statement No. 131, "Disclosures about Segments of an Enterprise and Related Information." FASB No. 131 establishes standards, using a management approach, for reporting information regarding operating segments in annual financial statements. The management approach designates the internal reporting that is used by the chief operating decision-maker when making operating decisions and assessing performance, as the source of the Company's reportable segments. The Company's president has been determined to be its chief operating decision-maker, as defined under Statement 131.

The Company operates in three principal business segments globally: Semiconductor; Industrial; and Telecommunications. For its fiscal year 2000, ZYGO operated in one segment, as a world leader in metrology, process control, and yield solutions servicing high precision industries. Substantially all of the Company's operating results, assets, depreciation, and amortization are U.S. based. The segment data is presented below in a manner consistent with management's internal measurement of the business.

Fiscal Year Ended June 30, 2001

	Semi-conductor	**Industrial**	**Telecom-munications**	**Total**
Sales	$84,561	$ 35,178	$ 13,511	$133,250
Gross Profit	38,737	15,969	6,463	61,169
Gross Profit as a % Sales	46%	45%	48%	46%

Separate financial information by segment for total assets, capital expenditures and depreciation and amortization is not available and is not evaluated by the chief operating decision-maker of the Company.

Sales to Canon Inc. and to Canon Sales Co., Inc., accounted for more than 19% of total Company sales for each of the years ended June 30, 2001, 2000, and 1999 (see Note 19). No other individual customer accounted for more than 10% of total Company sales for any year presented in the accompanying consolidated financial statements. Substantially all of the Company's operating results, assets, depreciation, and amortization are U.S. based. The Company's sales are noted below.

Sales by geographic area were as follows:

	Fiscal Year Ended June 30, **2001**	2000	1999
Americas (primarily United States)	**$ 68,299**	$ 48,835	$ 35,353
Far East:			
Japan	**$ 45,194**	$ 17,588	$ 14,143
Pacific Rim	**7,423**	11,714	6,038
Total Far East	**$ 52,617**	$ 29,302	$ 20,181
Europe and other (primarily Europe)	**12,334**	9,106	7,848
Total	**$133,250**	$ 87,243	$ 63,382

19. RELATED PARTY TRANSACTIONS

Sales to Canon Inc., a stockholder, and to Canon Sales Co., Inc., a distributor for certain of the Company's products in Japan and a subsidiary of Canon Inc., amounted to approximately $43,336 (33% of net sales), $16,463 (19% of net sales), and $13,375 (21% of net sales), for the years ended June 30, 2001, 2000, and 1999, respectively. Selling prices of products sold to Canon Inc. and Canon Sales Co., Inc. are based, generally, on the normal terms given to distributors. At June 30, 2001 and 2000, there was approximately, in the aggregate, $3,827 and $2,171, respectively, of trade accounts receivable from Canon Inc. and Canon Sales Co., Inc.

On April 11, 2001, the Company purchased 239,605 shares of its common stock from two officers and directors for $4,986 (see Note 13).

20. MATERIAL CONTRACTS

On May 9, 1997, the Company announced it had entered into a contract with the University of California's Lawrence Livermore National Laboratory ("LLNL"), whereby the Company will be a primary supplier of large plano optical components for the National Ignition Facility ("NIF"), a $1.2 billion Department of Energy project at LLNL to produce the world's largest laser for nuclear fusion research. The contract provided for the Company to design, manufacture, and equip a world-class optical fabrication facility at its Middlefield, Connecticut, operations for a fixed price of nearly $10 million over an 18-month time period. Revenues recognized on this contract in fiscal 2001, 2000 and 1999 amounted to $3,308, $2,802 and $900, respectively. To accommodate the space required for the NIF facility and provide additional office facilities, the Company built a 35,500-square-foot building addition to its Middlefield, Connecticut, site.

During fiscal year 1999, the Company entered into an agreement with IBM, which allows for marketing and servicing rights for its Atomic Force Microscope (AFM) line of business for a four-year period. The Company made payments totaling $2,250 to secure this relationship, which are being amortized over four years or less.

On March 28, 2000, the Company entered into an agreement to terminate the distribution agreement to market and sell AFM products. As part of the agreement, the Company was granted a nonexclusive license to the IBM AFM technology for the next three years and may continue to license the technology for additional terms thereafter. The Company and Veeco Corporation, which subsequently entered into the distribution agreement with IBM, have entered into an additional agreement for support and service of AFM products previously sold by ZYGO. As a result of this agreement ZYGO's AFM sales and service department has been discontinued.

Management is responsible for preparing the Company's consolidated financial statements and related information that appears in this annual report. The consolidated financial statements were prepared in conformity with accounting principles generally accepted in the United States of America appropriate in the circumstances and, accordingly, include some amounts based on management's best judgements and estimates. Financial information in this annual report is consistent with that in the consolidated financial statements.

The Company maintains a system of internal controls and procedures, which provides reasonable assurance, at an appropriate cost/benefit relationship, that assets are safeguarded and that transactions are authorized, recorded and reported properly. Management believes that the Company's system of internal control provides reasonable assurance that assets are safeguarded against material loss from unauthorized use or disposition and that the financial records are reliable for preparing financial statements and other data and for maintaining accountability for assets.

The Audit Committee of the Board of Directors, composed solely of Directors who are not officers or employees of the Company, meets with the independent auditors and financial management periodically to discuss internal accounting controls, auditing and financial reporting matters, and to discharge its responsibilities outlined in its written charter. The Committee reviews with the independent auditors the scope and results of the audit effort. The Committee also meets with the independent auditors without management present to ensure that the independent auditors have free access to the Committee.

The independent auditors, KPMG LLP, were recommended by the Audit Committee of the Board of Directors and selected by the Board of Directors. KPMG LLP was engaged to audit the 2001, 2000, and 1999 consolidated financial statements of Zygo Corporation and its subsidiaries and conducted such tests and related procedures as deemed necessary in conformity with auditing standards generally accepted in the United States of America. The opinion of the independent auditors, based upon their audits of the consolidated financial statements is included in this annual report.

Richard M. Dressler

Vice President, Finance,

Treasurer, and Chief Financial Officer

The Board of Directors and Stockholders of Zygo Corporation:

We have audited the accompanying consolidated balance sheets of Zygo Corporation and subsidiaries as of June 30, 2001 and 2000, and the related consolidated statements of earnings, stockholders' equity and cash flows for each of the years in the three-year period ended June 30, 2001. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Zygo Corporation and subsidiaries as of June 30, 2001 and 2000, and the results of their operations and their cash flows for each of the years in the three-year period ended June 30, 2001, in conformity with accounting principles generally accepted in the United States of America.

KPMG LLP

Hartford, Connecticut

August 10, 2001

(Thousands, except per share amounts)	For the Fiscal Year Ended June 30, 2001 September 30	December 31	March 31	June 30
Net sales	**$ 23,932**	**$ 32,731**	**$ 38,717**	**$ 37,870**
Earnings before taxes and minority interest	**$ 1,379**	**$ 3,063**	**$ 5,055**	**$ 5,198**
Income taxes	**469**	**1,041**	**1,719**	**225**
Minority interest	**93**	**117**	**129**	**243**
Net earnings	**$ 817**	**$ 1,905**	**$ 3,207**	**$ 4,730**
Net earnings per share:				
Basic[1]	**$ 0.06**	**$ 0.13**	**$ 0.21**	**$ 0.27**
Diluted[1]	**$ 0.05**	**$ 0.13**	**$ 0.20**	**$ 0.26**

	For the Fiscal Year Ended June 30, 2000 September 30	December 31	March 31	June 30[3]
Net sales	$ 18,603	$ 22,362	$ 22,408	$ 23,870
Earnings before taxes, minority interest and nonrecurring charges	$ 926	$ 2,424	$ 2,136	$ 1,770
Income taxes	354	960	609	342
Minority interest	—	73	(6)	127
Earnings before nonrecurring charges	$ 572	$ 1,391	$ 1,533	$ 1,301
Earnings per share before nonrecurring charges:				
Basic	$ 0.05	$ 0.12	$ 0.13	$ 0.09
Diluted	$ 0.04	$ 0.11	$ 0.11	$ 0.08
Net earnings (loss)	$ 572	$ (949)	$ 792	$(16,462)
Net earnings (loss) per share:				
Basic[1]	$ 0.05	$ (0.08)[2]	$ 0.06	$ (1.17)[2]
Diluted[1]	$ 0.04	$ (0.08)[2]	$ 0.06	$ (1.17)[2]

(1) The difference between basic shares outstanding and diluted shares outstanding is the assumed conversion of common stock equivalents (stock options) in the amounts of 909, 764, 440, and 547, for fiscal 2001 quarters and 1,075, 0, 1,595, and 0 for fiscal 2000 quarters ended September 30, December 31, March 31, and June 30, respectively.

(2) Accounting principles generally accepted in the United States of America require the computation of the net loss per share to be based on the weighted average basic shares outstanding.

(3) Nonrecurring charges include acquisition-related charges of $14,001 and the West Coast operations reorganization costs of $10,567 in the fourth quarter ended June 30, 2000.