VEECO INSTRUMENTS INC

FORM 10-K/A
(Amended Annual Report)

Filed 07/02/97 for the Period Ending 12/31/96

Address	TERMINAL DRIVE
	PLAINVIEW, NY 11803
Telephone	516 677-0200
CIK	0000103145
Symbol	VECO
SIC Code	3559 - Special Industry Machinery, Not Elsewhere Classified
Industry	Semiconductors
Sector	Technology
Fiscal Year	12/31

VEECO INSTRUMENTS INC

FORM 10-K/A
(Amended Annual Report)

Filed 7/2/1997 For Period Ending 12/31/1996

Address	TERMINAL DR
	PLAINVIEW, New York 11803
Telephone	516-349-8300
CIK	0000103145
Industry	Semiconductors
Sector	Technology
Fiscal Year	12/31

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K/A

[X] AMENDMENT NO. 1 TO ANNUAL REPORT PURSUANT TO Section 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE FISCAL YEAR ENDED DECEMBER 31, 1996

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE TRANSITION PERIOD FROM TO

COMMISSION FILE NUMBER 0-16244

```
                    VEECO INSTRUMENTS INC.
                         (REGISTRANT)

           DELAWARE                                 11-2989601
     (State or other jurisdiction                 (I.R.S. Employer
           of incorporation or organization)       Identification No.)

           TERMINAL DRIVE                              11803
         PLAINVIEW, NEW YORK                         (Zip Code)
  (Address of principal executive offices)
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REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE: (516) 349-8300

Securities registered pursuant to Section 12(b) of the Act:
NONE
Securities registered pursuant to Section 12(g) of the Act:
COMMON STOCK, PAR VALUE $.01 PER SHARE

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No ___

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by references in Part III of this Form 10-K or any amendment to this Form 10-K. [ ]

The aggregate market value of the voting stock held by non-affiliates of the Registrant, based on the closing price of the Common Stock on February 24, 1997 as reported on the Nasdaq National Market, was approximately $130,306,039. Shares of Common Stock held by each officer and director and by each person who owns 5% or more of the outstanding Common Stock have been excluded from this computation in that such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

At February 24, 1997, the Registrant had outstanding 5,870,627 shares of Common Stock.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's Proxy Statement for the Annual Meeting of Stockholders to be held on May 15, 1997 are incorporated by reference into Part III of this Form 10-K Report.

The Registrant, Veeco Instruments Inc. ("Veeco" or the "Company"), hereby amends its Annual Report on Form 10-K (the "10-K") for the year ended December 31, 1996, filed with the Securities and Exchange Commission (the "Commission") on February 28, 1997, to provide certain information included in its definitive Schedule 14A dated July 2, 1997.

PART II

ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA.

The financial data set forth below should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and with the Company's Consolidated Financial Statements and notes thereto included elsewhere in this Form 10-K.

(IN THOUSANDS, EXCEPT PER SHARE DATA)
YEARS ENDED DECEMBER 31

	1996	1995	1994	1993	1992
STATEMENT OF OPERATIONS DATA:					
Net sales	$96,832	$72,359	$49,434	$43,149	$36,346
Cost of sales	54,931	39,274	28,940	25,736	21,847
Gross profit	41,901	33,085	20,494	17,413	14,499
Cost and expenses	29,719	24,289	16,511	15,482	13,081
Operating income	12,182	8,796	3,983	1,931	1,418
Interest (income) expense - net	(678)	(391)	2,620	2,341	3,006
Income (loss) before income taxes and extraordinary item	12,860	9,187	1,363	(410)	(1,588)
Income tax provision (benefit)	4,822	2,395	(795)	-	-
Income (loss) before extraordinary item	8,038	6,792	2,158	(410)	(1,588)
Extraordinary (loss), net of $355 tax benefit	-	-	(679)	-	-
Net income (loss)	$8,038	$6,792	$1,479	$(410)	$(1,588)
Earnings per share:					
Income (loss) before extraordinary item	$1.36	$1.24	.87	$(.22)	$(.84)
Extraordinary (loss)	-	-	(.27)	-	-
Net income (loss)	$1.36	$1.24	$.60	$(.22)	$(.84)
Shares used in computing earnings per share	5,906	5,484	2,472	1,874	1,897

AS OF DECEMBER 31

	1996	1995	1994	1993	1992
BALANCE SHEET DATA(1):					
Cash and cash equivalents	$21,209	$17,568	$ 2,279	$386	$1,063
Working capital	43,454	37,461	16,122	6,666	7,264
Excess of cost over net assets acquired	4,448	4,579	4,710	4,840	4,835
Total assets	80,327	67,380	40,931	32,596	31,464
Long-term debt and capital leases (including current installments)	-	-	39	24,934	25,150
Shareholders' equity (deficit)	57,970	49,751	28,289	(1,681)	(1,226)

(1) Veeco completed an initial public offering (the "IPO") on December 6, 1994 in which $24,290,000 of net proceeds were received by Veeco. The net proceeds were used to repay the Company's outstanding debt and for working capital and other general corporate purposes. Prior to the IPO, the Company was highly leveraged with approximately $23,700,000 of debt and accrued interest outstanding. Veeco completed an additional public offering on July 31, 1995 (the "Follow-On Offering") in which $14,460,000 of net proceeds were received by Veeco. The net proceeds have been used for general corporate purposes. Prior to the completion of the IPO, Veeco incurred significant interest expense on its outstanding debt. Since the completion of the IPO and the Follow-On Offering, Veeco has earned net interest income.

ITEM 7. MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

RESULTS OF OPERATIONS

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

YEARS ENDED DECEMBER 31

	1996	1995	1994
Net sales	100.0%	100.0%	100.0%
Cost of sales	56.7	54.3	58.
Gross profit	43.3	45.7	41.5
Operating expenses:			
Research and development	10.1	9.8	10.3
Selling, general and administrative	20.2	23.3	22.6
Amortization	.2	.2	.7
Other - net	.2	.2	(.2)
Total operating expenses	30.7	33.5	33.4
Operating income	12.6	12.2	8.1
Interest (income) expense	(.7)	(.5)	5.3
Income before income taxes and extraordinary item	13.3	12.7	2.8
Income tax provision (benefit)	5.0	3.3	(1.6)
Income before extraordinary item	8.3	9.4	4.4
Extraordinary (loss), net of tax	--	--	(1.4)
Net income	8.3%	9.4%	3.0 %

YEARS ENDED DECEMBER 31, 1996 AND 1995

Net sales were $96,832,000 for the year ended December 31, 1996 representing an increase of approximately $24,473,000, or 33.8%, for the fiscal year ended December 31, 1996 as compared to 1995. The increase reflects growth in all three of Veeco's product lines - ion beam systems, surface metrology and industrial measurement. Sales in the U.S. increased approximately 38.6%, while international sales included a 37.8% increase in Asia Pacific and a 56.2% increase in Japan and a 3% decrease in Europe.

Sales of ion beam systems increased by 60.3% to approximately $53,213,000 in 1996 compared to 1995. Of this increase, approximately 55.9% is due to growth in volume, with the balance of the increase attributable to an approximately 27.7% higher average selling price of a system resulting from a shift in customer demand to multi-process modules with increased automation. This growth was principally driven by increased demand for mass memory storage due to the capacity ramp up in both magnetoresistive and inductive thin film magnetic heads required in high density hard drives.

Sales of surface metrology products increased by 14.6% to approximately $23,902,000 in 1996 compared to 1995 principally as a result of increased sales of SXM Workstations for semiconductor applications.

Sales of industrial measurement products increased by 7.7% to approximately $19,717,000 in 1996 compared to 1995 as a result of increased volume due to the introduction of new products in the leak detection product line, while the average sales price of a product was comparable in 1996 and 1995.

Gross profit increased to approximately $41,901,000, or 43.3% of net sales for 1996, compared to $33,085,000, or 45.7% of net sales for 1995. The decline in gross margin percentage was principally due to product and geographic mix changes in surface metrology and industrial measurement products lines. The lower gross profit percentage attributable to product mix resulted from increased sales of the SXM Workstation and other products distributed for other manufacturers, which historically have had lower gross margins, as well as for increases in sales of newly introduced products, the costs of which are generally higher than for mature products. Export sales, which generally have higher sales discounts and service and distribution costs, increased by 46.0%, which negatively impacted gross margins.

Research and development expense increased by approximately $2,703,000 to approximately $9,804,000, or 10.1% of net sales in 1996 compared to approximately $7,101,000 or 9.8% of sales in 1995, as Veeco increased its R&D investment in each of its product lines with particular emphasis on ion beam products.

Selling, general and administrative expenses increased by approximately $2,714,000 to 20.2% of net sales in 1996 from 23.3% for 1995. Selling expense increased $2,353,000 principally comprised of sales commissions related to higher sales volume, as well as increased compensation and travel expense as a result of additional sales and service personnel required to support Veeco's growth. Veeco received approximately $107 million of orders in 1996 compared to approximately $84 million of orders in 1995 for a 27.9% increase.
This resulted in a book to bill ratio of 1.11 to 1 for 1996.

Operating income increased to approximately $12,182,000 or 12.6% of net sales for 1996 compared to $8,796,000 or 12.2% of net sales for 1995, due to the above noted factors. Veeco incurred an operating loss in its foreign operations for the year ended December 31, 1996 of approximately $300,000 compared to operating income of approximately $257,000 for the year ended December 31, 1995, principally as a result of an approximately $253,000 unfavorable change in foreign exchange transactions, a sales volume decline and the sale of additional SXM Workstations at lower gross profit margins than Veeco's other product lines.

Income taxes amounted to $4,822,000 or 37.5% of income before income taxes and extraordinary item for 1996 as compared to $2,395,000 or 26.1% of income before income taxes and extraordinary item for 1995. Veeco's effective tax rate in 1995 was lower as a result of Veeco recognizing previously unrecognized deferred tax assets.

YEARS ENDED DECEMBER 31, 1995 AND 1994

Net sales increased by approximately $22,925,000, or 46.4%, for the fiscal year ended December 31, 1995 to approximately $72,359,000 as compared to 1994. The increase reflects growth in all three of Veeco's product lines - ion beam systems, surface metrology and industrial measurement. Sales in the U.S. increased approximately 48%, while international sales included an approximately 44% increase in European sales and an approximately 47% increase in Asia Pacific sales including Japan.

Sales of ion beam systems increased by 58.1% to approximately $33,184,000 in 1995 compared to 1994. This increase was principally attributable to an increase in volume while the average sales price of a system was comparable in 1995 and 1994. This increase was driven by increased demand from mass memory storage and telecommunications markets.

Sales of surface metrology products increased by 58.0% to approximately $20,830,000 in 1995 compared to 1994 as a result of increased sales of SXM Workstations for semiconductor applications and increased sales of surface profilers in Asia Pacific and Europe. This increase was principally attributable to an increase in volume while the average sales price of a system was comparable in 1995 and 1994.

Sales of industrial measurement products increased by 20.2% to approximately $18,345,000 in 1995 compared to 1994 as a result of the introduction of new products in both the leak detection and XRF thickness measurement systems product lines. This increase was principally attributable to an increase in volume while the average sales price of a system was comparable in 1995 and 1994.

Gross profit increased to approximately $33,085,000, or 45.7% of net sales, for 1995 compared to $20,494,000, or 41.5% of net sales for 1994. This improvement was due to the sales volume increases described above, product mix changes and improved operating efficiencies. Product mix favorably impacted gross margins in 1995 as compared to 1994 due to the increase in sales of ion beam systems and stylus profilers which generate higher gross margins than Veeco's industrial measurement products. Operating efficiencies were obtained in 1996 compared to 1995 by reduction in cycle times and higher throughput.

Research and development expense increased by approximately $2,005,000 to approximately $7,101,000, or 9.8% of net sales in 1995 compared to approximately $5,096,000 or 10.3% of sales in 1994, as Veeco increased its R&D investment in each of its product lines.

Selling, general and administrative expenses increased by approximately $5,651,000 to 23.3% of net sales in 1995 from 22.6% for 1994. Selling expense increased $4,150,000 principally comprised of sales commissions related to higher sales volume, as well as increased compensation and travel expense as a result of additional sales and service personnel required to support Veeco's growth. Veeco received approximately $84 million of orders in 1995 compared to approximately $55 million of orders in 1994.

Operating income increased to approximately $8,796,000 or 12.2% of net sales for 1995 compared to $3,983,000 or 8.1% of net sales for 1994, due to the above noted factors.

As a result of the repayment of all outstanding debt in December 1994 from the proceeds of the IPO and the investment of the net proceeds from the Public Offering completed in July 1995, Veeco had $391,000 of interest income in 1995 compared to $2,620,000 of interest expense in 1994.

Income taxes amounted to $2,395,000 or 26.1% of income before income taxes and extraordinary item for 1995. Veeco's effective tax rate is lower than the statutory tax rate as a result of Veeco recognizing previously unrecognized deferred tax assets. It is anticipated that Veeco's effective tax rate in 1996 will approach the statutory tax rate.

LIQUIDITY AND CAPITAL RESOURCES

Net cash provided by operations totaled $7,173,000 for the fiscal year ended December 31, 1996 compared to $1,980,000 for 1995, due primarily to net income of $8,038,000 in 1996 compared to net income of $6,792,000 in 1995. Cash flow in 1995 was also impacted by an increase of approximately $6,072,000 in accounts receivable. Net cash provided by operations of $1,980,000 for the fiscal year ended December 31, 1995 compared to $808,000 for 1994 primarily due to net income of $6,792,000 in 1995 compared to net income of $1,479,000 in 1994 partially offset by changes in operating assets and liabilities.

Accounts receivable increased by approximately $843,000 at December 31, 1996 to $19,826,000 from $18,983,000 at December 31, 1995, due primarily to increased sales. Accounts receivable increased by approximately $6,291,000 to $18,983,000 at December 31, 1995 from $12,692,000 at December 31, 1994, primarily due to the increased sales.

Inventories increased by approximately $5,468,000 at December 31, 1996 to $21,263,000 from $15,795,000 at December 31, 1995. The increase was principally due to purchases required for the increased level of sales orders. Inventories increased by approximately $5,101,000 at December 31, 1995 to $15,795,000 at December 31, 1995 from $10,694,000 at December 31, 1994 principally due to purchases required for the introduction of new products and increased level of sales orders.

Accounts payable increased by $2,467,000 at December 31, 1996 to $11,196,000 from $8,729,000 at December 31, 1995 due to a higher level of purchases associated with the increased sales volume. Accounts payable increased by $1,316,000 at December 31, 1995 to $8,729,000 from $7,413,000 as a result of purchases required for the introduction of new products.

Accrued expenses increased by $2,441,000 at December 31, 1996 to $9,964,000 from $7,523,000 at December 31, 1995 as a result of increased customer deposits and payroll-related liabilities.

Working capital totaled approximately $43,454,000 at December 31, 1996 compared to approximately $37,461,000 at December 31, 1995. Cash increased to approximately $21,209,000 at December 31, 1996 as a result of cash from operations partially offset by approximately $3,766,000 of capital expenditures. Working capital was approximately $37,461,000 at December 31, 1995 compared to approximately $16,122,000 at December 31, 1994. Cash increased to approximately $17,568,000 at December 31, 1995 from $2,279,000 at December 31, 1994 as a result of cash from operations and Veeco's Public Offering.

Veeco made capital expenditures of $3,766,000 for fiscal year 1996, principally for manufacturing facilities, laboratory and test equipment and computer system upgrades, as compared to $965,000 of capital expenditures for 1995. Veeco's capital expenditures for 1995 related primarily to the purchase of laboratory and test equipment and manufacturing facility improvements. Veeco expects that capital expenditures will increase in the next year as it improves its manufacturing facilities and acquires additional equipment for its ion beam deposition systems business.

In July 1996, Veeco entered into a new credit facility (the "Credit Facility") with Fleet Bank, N.A. and The Chase Manhattan Bank. The Credit Facility, which may be used for working capital, acquisitions and general corporate purposes, provides Veeco with up to $30 million of availability. The Credit Facility bears interest at the prime rate of the lending banks, but is adjustable to a maximum rate of 3/4% above the prime rate in the event Veeco's ratio of debt to cash flow exceeds a defined ratio. A LIBOR based interest rate option is also provided. As of December 31, 1996 there were no amounts outstanding under the Credit Facility.

As of December 31, 1996, Veeco's availability under the Credit Facility was reduced by approximately $931,000 as a result of outstanding letters of credit. The Credit Facility is secured by substantially all of the Company's personal property, as well as the stock of its Sloan subsidiary.

Pursuant to a sales and marketing agreement with IBM, the Company has agreed to purchase a minimum number of IBM-manufactured SXM Workstations for sale by the Company to customers in the semiconductor and data storage industries for an aggregate purchase price of approximately $2,250,000. These products are required to be purchased prior to July 1997. In addition, the Company has minimum purchase obligations pursuant to agreements with certain other suppliers. See "Business--Strategic Alliances."

Veeco believes that the cash generated from operations, funds available from the Credit Facility described above and existing cash balances will be sufficient to meet the Company's projected working capital and other cash flow requirements for at least the next 24 months.

RISK FACTORS THAT MAY IMPACT FUTURE RESULTS

Certain information provided by the Company, statements made by its employees or information included in its filings with the Securities and Exchange Commission may contain statements which are "forward-looking statements" which involve risks and uncertainties. The following risk factors should be considered by shareholders of and by potential investors in the Company.

CYCLICALITY OF SEMICONDUCTOR INDUSTRY. The semiconductor industry has been characterized by cyclicality. The industry has experienced significant economic downturns at various times in the last decade, characterized by diminished product demand, accelerated erosion of average selling prices and production over-capacity. The Company may experience substantial period-to-period fluctuations in future operating results due to general industry conditions or events occurring in the general economy.

RAPID TECHNOLOGICAL CHANGE; IMPORTANCE OF TIMELY PRODUCT INTRODUCTION. The semiconductor manufacturing industry is subject to rapid technological change and new product introductions and enhancements. The Company's ability to remain competitive will depend in part upon its ability to develop in a timely and cost effective manner new and enhanced systems at competitive prices. In addition, new product introductions or enhancements by the Company's competitors could cause a decline in sales or loss of market acceptance of the Company's existing products. Increased competitive pressure could also lead to intensified price competition resulting in lower margins, which could materially adversely affect the Company's business, financial condition and results of operations. The success of the Company in developing, introducing and selling new and enhanced systems depends upon a variety of factors, including product selections, 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. There can be no assurance that the Company will be successful in selecting, developing, manufacturing and marketing new products or in enhancing existing products.

LIMITED SALES BACKLOG. The Company derives a substantial portion of its sales from the sale of a relatively small number of systems which typically range in purchase price from approximately $400,000 to $1,500,000. As a result, the timing of recognition of revenue for a single transaction could have a material adverse affect on the Company's sales and operating results. The Company's backlog at the beginning of a quarter typically does not include all sales required to achieve the Company's sales objective for that quarter. Moreover, all customer purchase orders are subject to cancellation or rescheduling by the customer 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 the Company obtaining orders for systems to be shipped in the same quarter that the order is received. The Company's business and financial results for a particular period could be materially 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 semiconductor capital equipment industry is intensely competitive. 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, the Company 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, the Company expects to experience difficulty in selling to a particular customer for a significant period of time if that customer selects a competitor's capital equipment. The Company expects its competitors to continue to develop enhancements to and future generations of competitive products that may offer improved price or performance features. New product introductions and enhancements by the Company's competitors could cause a significant decline in sales or loss of market acceptance of the Company's systems in addition to intense price competition or otherwise make the Company's systems or technology obsolete or noncompetitive. Increased competitive pressure could lead to reduced demand and lower prices for the Company's products, thereby materially adversely affecting the Company's operating results. There can be no assurance that the Company will be able to compete successfully in the future.

FOREIGN OPERATIONS

Approximately 12.5%, 17.3%, and 14.9% of the Company's net sales for years ended December 31, 1996, 1995 and 1994, respectively, were derived from sales denominated in foreign currencies. The effect of foreign currency exchange rate fluctuations on such revenues is largely offset to the extent expenses of the Company's international operations are incurred and paid for in the same currencies as those of its revenues.

The Company has mitigated its exposure to foreign currency transaction adjustments by substantially offsetting assets denominated in foreign currencies with foreign currency liabilities. The Company does not engage in foreign currency hedging transactions. Foreign currency translation adjustments of $104,000, ($128,000) and ($233,000) were (credited) charged to Shareholder's Equity for the years ended December 31, 1996, 1995 and 1994, respectively. The aggregate exchange gains and (losses) included in determining consolidated results of operations were ($153,000), $100,000, and $185,000 for the years ended December 31, 1996, 1995 and 1994 respectively.

DEPENDENCE ON MICROELECTRONICS INDUSTRY

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

	DECEMBER 31		
	1996	1995	1994
Data storage	55.5%	40.2%	38.1%
Semiconductor	27.4	36.4	33.2
Flat panel display	3.8	6.1	7.3

The Company cannot predict whether the growth experienced in the microelectronics industry in the recent past will continue.

SIGNATURES

Pursuant to the requirements of Section 13 or 15 (d) of the Securities Exchange Act of 1934, as amended, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

VEECO INSTRUMENTS INC.

By /s/ Edward H. Braun
Edward H. Braun,
Chairman, Chief Executive Officer
and President

Form 10-K-Item 14(a)(1) and (2)

Veeco Instruments Inc. and Subsidiaries

Index to Consolidated Financial Statements
and Financial Statement Schedule

The following consolidated financial statements of Veeco Instruments Inc. and subsidiaries are included in Item 8:

The following consolidated financial statement schedule of Veeco Instruments Inc. and subsidiaries is included in Item 14(d):

All other schedules for which provision is made in the applicable accounting regulation of the Securities and Exchange Commission are not required under the instructions or are inapplicable and therefore have been omitted.

Report of Independent Auditors

Shareholders and The Board of Directors
Veeco Instruments Inc.

We have audited the accompanying consolidated balance sheets of Veeco Instruments Inc. and subsidiaries as of December 31, 1996 and 1995 and the related consolidated statements of income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 1996. Our audits also included the financial statement schedule listed in the Index at Item 14(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Veeco Instruments Inc. and subsidiaries at December 31, 1996 and 1995, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 1996 in conformity with generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

/s/ Ernst & Young
Melville, New York
February 7, 1997

Veeco Instruments Inc. and Subsidiaries

Consolidated Balance Sheets
(DOLLARS IN THOUSANDS)

DECEMBER 31

	1996	1995
ASSETS		
Current assets:		
Cash and cash equivalents	$21,209	$17,568
Accounts and trade notes receivable, less allowance for doubtful accounts of $482 in 1996 and $517 in 1995	19,826	18,983
Inventories	21,263	15,795
Prepaid expenses and other current assets	858	923
Deferred income taxes	1,937	1,221
Total current assets	65,093	54,490
Property, plant and equipment at cost, net	9,761	7,381
Excess of cost over net assets acquired, less accumulated amortization of $910 in 1996 and $779 in 1995	4,448	4,579
Other assets--net	1,025	930
Total assets	$80,327	$67,380
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 11,196	$ 8,729
Accrued expenses	9,964	7,523
Income taxes payable	479	777
Total current liabilities	21,639	17,029
Deferred income taxes	257	118
Other liabilities	461	482
Shareholders' equity:		
Common stock (9,500,000 shares authorized, 5,836,021 and 5,787,214 shares issued and outstanding at December 31, 1996 and 1995, respectively)	58	58
Additional paid-in capital	47,638	47,353
Retained earnings	9,609	1,571
Cumulative translation adjustment	665	769
Total shareholders' equity	57,970	49,751
Total liabilities and shareholders' equity	$80,327	$67,380

SEE ACCOMPANYING NOTES.

Veeco Instruments Inc. and Subsidiaries

Consolidated Statements of Income

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)

YEAR ENDED DECEMBER 31

	1996	1995	1994
Net sales	$ 96,832	$72,359	$49,434
Cost of sales	54,931	39,274	28,940
Gross profit	41,901	33,085	20,494
Costs and expenses:			
Research and development expense	9,804	7,101	5,096
Selling, general and administrative expense	19,536	16,822	11,171
Amortization expense	236	202	344
Other--net	143	164	(100)
	29,719	24,289	16,511
Operating income	12,182	8,796	3,983
Interest (income) expense--net	(678)	(391)	2,620
Income before income taxes and extraordinary item	12,860	9,187	1,363
Income tax provision (benefit)	4,822	2,395	(795)
Income before extraordinary item	8,038	6,792	2,158
Extraordinary (loss) on prepayment of debt, net of $355 tax benefit	-	-	(679)
Net income	$ 8,038	$ 6,792	$ 1,479
Earnings per share:			
Income before extraordinary item	$ 1.36	$ 1.24	$ .87
Extraordinary (loss)	-	-	(.27)
Net income	$ 1.36	$ 1.24	$ .60
Shares used in computing earnings per share	5,906	5,484	2,472

SEE ACCOMPANYING NOTES.

Veeco Instruments Inc. and Subsidiaries

Consolidated Statements of Shareholders' Equity
(DOLLARS IN THOUSANDS)

	Common Stock Shares	Common Stock Amount	Preferred Stocks Shares	Preferred Stocks Amount	Additional Paid-in Capital	Retained Earnings (Deficit)	Preferred Treasury Stock Shares	Preferred Treasury Stock Amount	Cumulative Translation Adjustment	Total
Balance at December 31, 1993			1,846,154	$ 4,354	$ 316	$ (6,700)	(85,128)	$ (59)	$ 408	$(1,681)
Conversion of Preferred Stocks	1,761,026	$18	(1,846,154)	(4,354)	4,277		85,128	59		-
Exercise of outstanding warrants	337,449	3			112					115
Conversion of Series B Subordinated debt and accrued interest	313,878	3			3,450					3,453
Stock issued for prepayment penalty	36,364	1			399					400
Net proceeds from initial public offering	2,500,000	25			24,265					24,290
Translation adjustment									233	233
Net income						1,479				1,479
Balance at December 31, 1994	4,948,717	50	-	-	32,819	(5,221)	-	-	641	28,289
Exercise of stock options	38,497	-			82					82
Net proceeds from public offering	800,000	8			14,452					14,460
Translation adjustment									128	128
Net income						6,792				6,792
Balance at December 31, 1995	5,787,214	58	-	-	47,353	1,571	-	-	769	49,751
Exercise of stock options and stock issuances under stock purchase plan	48,807	-			285					285
Translation adjustment									(104)	(104)
Net income						8,038				8,038
Balance at December 31, 1996	5,836,021	$ 58	-	$ -	$ 47,638	$ 9,609	-	$ -	$ 665	$ 57,970

SEE ACCOMPANYING NOTES.

Veeco Instruments Inc. and Subsidiaries

Consolidated Statements of Cash Flows
(DOLLARS IN THOUSANDS)

	YEAR ENDED DECEMBER 31		
	1996	1995	1994
OPERATING ACTIVITIES			
Net income	$ 8,038	$ 6,792	$ 1,479
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	1,599	1,200	1,425
Deferred income taxes	(577)	147	(1,250)
Loss on debt prepayment	-	-	1,034
Other	11	-	(28)
Changes in operating assets and liabilities:			
Accounts receivable	(1,062)	(6,072)	(3,355)
Inventories	(5,560)	(4,948)	(2,071)
Accounts payable	2,485	1,291	3,492
Accrued expenses and other current liabilities	2,460	2,984	(2)
Income taxes payable	(298)	686	92
Other--net	77	(100)	(8)
Net cash provided by operating activities	7,173	1,980	808
INVESTING ACTIVITIES			
Capital expenditures	(3,766)	(965)	(364)
Patents	(17)	-	(165)
Net cash used in investing activities	(3,783)	(965)	(529)
FINANCING ACTIVITIES			
Net proceeds from public stock offering	-	14,460	24,290
Net repayments under revolving credit agreement	-	-	(8,786)
Long-term debt repayments	-	-	(13,459)
Deferred financing costs	(195)	(85)	(201)
Exercise of stock options and issuance of stock under stock purchase plan	285	82	-
Other	-	(39)	9
Net cash provided by financing activities	90	14,418	1,853
Effect of exchange rate changes on cash and cash equivalents	161	(144)	(239)
Net increase in cash and cash equivalents	3,641	15,289	1,893
Cash and cash equivalents at beginning of year	17,568	2,279	386
Cash and cash equivalents at end of year	$ 21,209	$ 17,568	$ 2,279

SEE ACCOMPANYING NOTES.

1. SIGNIFICANT ACCOUNTING POLICIES

ORGANIZATION

Veeco Instruments Inc. ("Veeco" or the "Company") designs, manufactures, markets and services a broad line of precision ion beam systems, surface metrology systems, and industrial measurement equipment used in the manufacture of microelectronic products. The company sells its products worldwide to many of the leading semiconductor and data storage manufacturers. In addition, the Company sells its products to companies in the flat panel display and high frequency device industries, as well as to other industries, research and development centers and universities.

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.

BASIS OF PRESENTATION

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 income, which is included in other accrued expenses, and recognized as income on a straight-line basis over the service period of the related contract. The Company provides for (1) the estimated costs of fulfilling its installation obligations and (2) warranty costs at the time the related revenue is recorded.

CASH FLOWS

The Company considers all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents. Interest paid during 1996, 1995 and 1994 was approximately $70,000, $113,000 and, $2,661,000, respectively. Taxes paid in 1996 and 1995 were approximately $5,226,000 and $916,000, respectively. No significant tax payments were made in 1994.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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. Amortization of equipment recorded under capital lease obligations is included in depreciation of property, plant and equipment.

INTANGIBLE ASSETS

Excess of cost of investment over net assets of business acquired is being amortized on a straight-line basis over 40 years. Other intangible assets, principally patents, software licenses and deferred finance costs, of $892,000 and $880,000 at December 31, 1996 and 1995, respectively, are net of accumulated amortization of $577,000 and $312,000. Other intangible assets are amortized over periods ranging from 3 to 17 years.

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 EXPENSE

The cost of advertising is expensed as of the first showing. The Company incurred $1,819,000, $1,155,000 and $638,000 in advertising costs during 1996, 1995 and 1994, respectively.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

STOCK BASED COMPENSATION

At December 31, 1996, the Company has three stock-based compensation plans, which are described in Note 5 to the consolidated financial statements. The Company has elected to continue to follow Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" (APB 25) and related Interpretations in accounting for its stock-based compensation plans. Under APB 25, because the exercise price of the Company's employee stock options granted equals the market price of the underlying stock on the date of grant, no compensation expense is recognized.

RECLASSIFICATIONS

Certain amounts in the 1994 and 1995 financial statements have been reclassified to conform with the 1996 presentation.

EARNINGS PER SHARE

Earnings per share is computed using the weighted average number of common and common equivalent shares outstanding during the year. The Company completed an initial public offering (the "IPO") on December 6, 1994, pursuant to which 2,500,000 shares of Common Stock, par value $.01 per share (the "Common Stock") were issued and sold at $11 per share. As a consequence of the IPO and pursuant to the requirements of the Securities and Exchange Commission, stock issued by the Company during the twelve months immediately preceding the IPO, plus the number of equivalent shares issuable pursuant to the grant of options during the same period, have been included in the number of shares used in the calculation of earnings per share for 1994 as if they were outstanding (using the treasury stock method and the IPO price). In addition, the calculation of the shares used in computing earnings per share for 1994 also includes the outstanding convertible preferred stock which automatically converted into 1,761,026 shares of Common Stock upon the closing of the IPO as if they were converted to Common Stock on the respective original dates of issuance.

2. BALANCE SHEET INFORMATION

	DECEMBER 31 1996	DECEMBER 31 1995
Inventories:		
Raw materials	$ 9,546,000	$ 4,349,000
Work in process	4,909,000	4,222,000
Finished goods	6,808,000	7,224,000
	$ 21,263,000	$ 15,795,000

	DECEMBER 31 1996	DECEMBER 31 1995	ESTIMATED USEFUL LIVES
Property, plant and equipment:			
Land	$ 1,400,000	$ 1,400,000	
Buildings and improvements	4,965,000	4,776,000	30 years
Machinery and equipment	9,749,000	6,376,000	3-10 years
Leasehold improvements	150,000	147,000	3-10 years
	16,264,000	12,699,000	
Less accumulated depreciation and amortization	6,503,000	5,318,000	
	$ 9,761,000	$ 7,381,000	

	DECEMBER 31 1996	DECEMBER 31 1995
Accrued expenses:		
Deferred service contract revenue	$ 401,000	$ 670,000
Customer deposits and advance billings	3,540,000	1,842,000
Payroll and related benefits	1,836,000	2,046,000
Other	4,187,000	2,965,000
	$ 9,964,000	$7,523,000

3. FINANCING ARRANGEMENTS

In July 1996, the Company entered into a new credit facility ("the Credit Facility") with Fleet Bank, N.A. and The Chase Manhattan Bank. The Credit Facility, which is to be used for working capital, acquisitions and general corporate purposes provides the Company with up to $30 million of availability. The Credit Facility bears interest at the prime rate of the lending banks, but is adjustable to a maximum rate of 3/4% 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 July 31, 1999, but under certain conditions is convertible into a term loan, which would amortize quarterly through July 31, 2002.

The Credit Facility is secured by substantially all of the Company's personal property as well as the stock of its subsidiary Sloan Technology Corporation. The Credit Facility also contains certain restrictive covenants, which among other things, impose limitations with respect to incurrence of certain additional indebtedness, incurrence of liens, payments of dividends, long-term leases, investments, mergers, consolidations and specified sales of assets. The Company is also required to satisfy certain financial tests including maintaining specified consolidated tangible net worth and maintaining certain interest coverage and capitalization ratios.

As of December 31, 1996 and 1995, no borrowings were outstanding under the Company's credit facilities. Letters of credit of approximately $931,000 and $1,900,000 were outstanding at December 31, 1996 and 1995, respectively, reducing the Company's availability under its credit facilities.

4. SHAREHOLDERS' EQUITY

The Company completed the IPO on December 6, 1994, whereby 2,500,000 shares of Common Stock, par value $.01 per share (the "Common Stock") were issued and sold at $11 per share. The net proceeds were used to prepay debt in the amount of $23,700,000 and for working capital and other general corporate purposes .

The prepayment of the Company's debt and the conversion of the Senior Subordinated Series B Notes into Common Stock in December 1994, resulted in an extraordinary charge of $679,000, net of $355,000 of income tax benefit. The extraordinary charge is principally

4. SHAREHOLDERS' EQUITY (CONTINUED)

comprised of a prepayment penalty and the writeoff of unamortized deferred finance costs.

On July 31, 1995, the Company completed a public offering (the "Public Offering") in which 2,300,000 shares of Common Stock were sold, 800,000 of which were sold by the Company and 1,500,000 of which were sold by certain selling stockholders, at the public offering price of $20 per share.

As of December 31, 1996, the Company has reserved 805,959 and 233,524 shares of common stock for issuance upon exercise of stock options and issuance of shares pursuant to the Stock Purchase Plan, respectively.

5. STOCK COMPENSATION PLANS

Pro forma information regarding net income and earnings per share is required by FASB Statement 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 subsequent to December 31, 1994 under the fair value method of that Statement. The fair value for these options, was estimated at the date of grant using a Black-Scholes option pricing model. The Company's pro forma information follows:

DECEMBER 31

	1996	1995
Pro forma net income	$ 7,540,000	$ 6,444,000
Pro forma earnings per share	$ 1.30	$ 1.20

Because Statement 123 is applicable only to options granted subsequent to December 31, 1994 and employee stock options granted vest over a three year period, its effect will not be fully reflected in pro forma net income until 1997.

5. STOCK COMPENSATION PLANS (CONTINUED)

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 826,787 options (264,245 options available for future grants as of December 31, 1996) to purchase share 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 grants 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 50,000 options (20,003 options available for future grants as of December 31, 1996) to purchase shares of Common Stock of the Company. Such options granted are exercisable immediately and expire after ten years.

The fair values of these options at the date of grant was estimated with the following weighted-average assumptions for 1996 and 1995: risk-free interest rate of 6.3%, no dividend yield, volatility factor of the expected market price of the Company's common stock of 50% and a weighted-average expected life of the option of four years.

A summary of the status of the Company's two fixed stock option plans as of December 31, 1994, 1995 and 1996, and changes during the years ending on those dates is presented below:

	1994		1995		1996	
	SHARES (000)	OPTION PRICE PER SHARE	SHARES (000)	OPTION PRICE PER SHARE	SHARES (000)	WEIGHTED-AVERAGE EXERCISE PRICE
Outstanding at beginning of year	124	$ .69 to $ 3.00	175	$ .69 to $11.00	441	$ 11.10
Granted	56	4.50 to 11.00	314	9.50 to 22.75	175	13.68
Exercised	-	-	(38)	.69 to 4.50	(32)	2.68
Forfeited	(5)	.69 to 4.50	(10)	.69 to 13.38	(62)	19.14
Outstanding at end of year	175	$ .69 to 11.00	441	$ .69 to 22.75	522	$ 11.50
Options exercisable at year-end	91	$ .69 to $ 4.50	104	$ .69 to $13.38	188	$ 8.74
Weighted-average fair value of options granted during the year				$ 6.62		$ 6.24

5. STOCK COMPENSATION PLANS (CONTINUED)

The following table summarizes information about fixed stock options outstanding at December 31, 1996:

	OPTIONS OUTSTANDING			OPTIONS EXERCISABLE	
RANGE OF EXERCISE PRICE	NUMBER OUTSTANDING AT DECEMBER 31, 1996	WEIGHTED-AVERAGE REMAINING CONTRACTUAL LIFE	WEIGHTED-AVERAGE EXERCISE PRICE	NUMBER OUTSTANDING AT DECEMBER 31, 1996	WEIGHTED-AVERAGE EXERCISE PRICE
	(000)			(000)	
$ .69 to $ 5.00	101	7.2 years	$ 3.46	88	$ 3.32
5.01 to 10.00	24	8.0	9.50	8	9.50
10.00 to 15.00	387	8.9	13.45	82	12.99
15.00 to 21.50	10	8.5	21.32	10	21.50
$ .69 to $21.50	522	8.5	$ 11.50	188	$ 8.74

EMPLOYEE STOCK PURCHASE PLAN

Under the Veeco Instruments Inc. Employees 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 granted 14,278 shares and 16,476 shares to employees in 1996 and 1995, respectively. The fair value of the employees' purchase rights were estimated using the following assumptions for 1996 and 1995, respectively: no dividend yield for both years; an expected life of one year and six months; expected volatility of 70% and 64%; and risk-free interest rates of 5.2% and 5.7% The weighted-average fair value of those purchase rights granted in 1996 and 1995 was $5.20 and $4.40 respectively.

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 as of December 31, 1996 and 1995 are as follows:

DECEMBER 31

	1996	1995
Deferred tax liabilities:		
Tax over book depreciation	$ 257,000	$ 118,000
Total deferred tax liabilities	257,000	118,000
Deferred tax assets:		
Inventory valuation	1,620,000	1,122,000
Foreign net operating loss carryforwards	795,000	1,276,000
Research tax credit carryforward	-	277,000
Other	317,000	459,000
Total deferred tax assets	2,732,000	3,134,000
Valuation allowance	(795,000)	(1,913,000)
Net deferred tax assets	1,937,000	1,221,000
Net deferred taxes	$1,680,000	$ 1,103,000

For financial reporting purposes, income before income taxes and extraordinary item includes the following components:

YEAR ENDED DECEMBER 31

	1996	1995	1994
Domestic	$13,157,000	$8,926,000	$2,064,000
Foreign	(297,000)	261,000	(701,000)
	$12,860,000	$9,187,000	$1,363,000

6. INCOME TAXES (CONTINUED)

Significant components of the provision (benefit) for income taxes for income before extraordinary item are presented below.

YEAR ENDED DECEMBER 31

	1996	1995	1994
Current:			
Federal	$4,712,000	$3,226,000	$ 1,067,000
Foreign	129,000	379,000	217,000
State	835,000	260,000	180,000
Utilization of research tax credits	(277,000)	(909,000)	-
Utilization of net operating losses	-	(708,000)	(1,294,000)
	5,399,000	2,248,000	170,000
Deferred:			
Federal	(525,000)	335,000	(965,000)
Foreign	-	(90,000)	-
State	(52,000)	(98,000)	-
	(577,000)	147,000	(965,000)
	$4,822,000	$2,395,000	$ (795,000)

The reconciliation of income taxes attributable to income before extraordinary item computed at U.S. federal statutory rates to income tax expense is:

YEAR ENDED DECEMBER 31

	1996	1995	1994
Tax at U.S. statutory rates	$ 4,501,000	$ 3,123,000	$ 463,000
State income taxes (net of federal benefit)	334,000	74,000	119,000
Goodwill amortization	46,000	44,000	44,000
Nondeductible expenses	39,000	42,000	31,000
Recognition of previously unrecognized deferred tax assets, net	-	(314,000)	(639,000)
Operating losses not currently realizable	225,000	212,000	456,000
Operating losses currently realizable	-	(708,000)	(1,294,000)
Other	(323,000)	(78,000)	25,000
	$ 4,822,000	$ 2,395,000	$ (795,000)

6. INCOME TAXES (CONTINUED)

Several of the Company's foreign subsidiaries have net operating loss carryforwards for foreign tax purposes of approximately $2.0 million at December 31, 1996, a portion of which expires in years 1997 through 2001 and a portion for which the carryforward period is unlimited.

7. COMMITMENTS AND CONTINGENCIES AND OTHER MATTERS

The Company has an agreement with IBM pursuant to which the Company is IBM's exclusive worldwide sales and marketing representative for the SXM Workstation to the semiconductor and data storage industries. Under this agreement, the Company has agreed to purchase a minimum number of SXM Workstations by July 1997. At December 31, 1996 such purchase commitment amounted to approximately $2.25 million. IBM has the right to discontinue production at any time upon written notice to the Company, in which event IBM has agreed to grant to the Company an exclusive worldwide license to manufacture the SXM Workstation for sale to the semiconductor and data storage industries pursuant to a royalty and license agreement to be negotiated at such time.

Minimum lease commitments as of December 31, 1996 for property and equipment under operating lease agreements (exclusive of renewal options) are payable as follows:

1997	$ 737,000
1998	489,000
1999	223,000
2000	98,000
2001	36,000
Thereafter	98,000
	$1,681,000

Rent charged to operations amounted to $870,000, $772,000 and $825,000 in 1996, 1995 and 1994, respectively. In addition, the Company is obligated under the leases for certain other expenses, including real estate taxes and insurance.

In compliance with a Cleanup and Abatement Order ("CAO") issued by the California Regional Water Quality Control Board, Central Coast Region, the Company completed soil remediation of a site which was leased by a predecessor of the Company in September 1995. The cost of the soil remediation was approximately $35,000. The Company is currently performing post-soil remediation groundwater monitoring at the site. Reports prepared by consultants indicate certain contaminants in samples of groundwater underneath the site. The Company cannot predict the extent of groundwater contamination at the site and cannot determine at this time whether any or all of the groundwater contamination may be attributable to activities of neighboring parties. The Company cannot predict whether any groundwater remediation will be necessary or the costs, if any, of such remediation.

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 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. Despite 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. Despite such indemnification, the Company does not believe that any material loss or expense is probable in connection with any such liabilities.

7. COMMITMENTS AND CONTINGENCIES AND OTHER MATTERS (CONTINUED)

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

DECEMBER 31

	1996	1995	1994
Data storage	55.5%	40.2%	38.1%
Semiconductor	27.4	36.4	33.2
Flat panel display	3.8	6.1	7.3

The Company cannot predict whether the growth experienced in the microelectronics industry in the recent past will continue.

Sales to one customer accounted for approximately 17%, 9% and 2% and sales to another customer accounted for approximately 16%, 23% and 27% of the Company's net sales during the years ended December 31, 1996, 1995 and 1994, respectively.

The Company manufactures and sells its products to companies in different geographic locations. The Company performs periodic credit evaluations of its customers' financial condition, generally does not require collateral, and where appropriate, requires that letters of credit be provided on foreign sales. Receivables generally are due within 30 days. The Company's accounts receivable are concentrated in the following geographic locations:

DECEMBER 31

	1996	1995
United States	$10,699,000	$ 10,892,000
Europe	3,161,000	5,008,000
Far East	5,729,000	3,069,000
Other	237,000	14,000
	$19,826,000	$18,983,000

8. FOREIGN OPERATIONS AND GEOGRAPHIC AREA INFORMATION

Information as to the Company's foreign operations and geographic area information (assets not specifically identified to Europe and the Far East are included in the United States) is summarized below:

	NET SALES UNAFFILIATED CUSTOMERS			OPERATING INCOME			Total Assets		
	1996	1995	1994	1996	1995	1994	1996	1995	1994
	(IN THOUSANDS)								
United States	$92,063	$66,826	$45,713	$12,613	$8,670	$4,702	$72,589	$58,051	$32,518
Europe(1)	11,214	11,863	7,297	(69)	651	(541)	6,953	8,790	7,563
Far East	915	913	681	(231)	(394)	(15)	785	539	850
Eliminations	(7,360)	(7,243)	(4,257)	(131)	(131)	(163)	-	-	-
	$96,832	$72,359	$49,434	$12,182	$8,796	$3,983	$80,327	$67,380	$40,931

(1) Principally reflects the Company's operations and assets in France, United Kingdom and Germany.

Export sales from the Company's United States operations are as follows:

	1996	1995	1994
	(IN THOUSANDS)		
Asia Pacific	$19,060	$13,827	$ 8,336
Japan	14,606	9,020	7,119
Europe	566	544	1,802
Other	749	564	556
	$34,981	$23,955	$17,813

The aggregate foreign exchange gains and (losses) included in determining consolidated results of operations were $(153,000), $100,000 and $185,000 in 1996, 1995 and 1994, respectively.

Veeco Instruments Inc. and Subsidiaries

Schedule II--Valuation and Qualifying Accounts

COL. A	COL. B	COL. C ADDITIONS		COL. D	COL. E
DESCRIPTION	BALANCE AT BEGINNING OF PERIOD	CHARGED TO COSTS AND EXPENSES	CHARGED TO OTHER ACCOUNTS	DEDUCTIONS	BALANCE AT END OF PERIOD
Deducted from asset accounts:					
Year ended December 31, 1996					
Allowance for doubtful accounts	$ 517,000	$ 14,000	$ -	$ 49,000	$ 482,000
Valuation allowance on net deferred tax assets	1,913,000	-	-	1,118,000	795,000
	$ 2,430,000	$ 14,000	$ -	$ 1,167,000	$ 1,277,000
Deducted from asset accounts:					
Year ended December 31, 1995:					
Allowance for doubtful accounts	$ 383,000	$ 147,000	$ -	$ 13,000	$ 517,000
Valuation allowance on net deferred tax assets	2,858,000	-	-	945,000	1,913,000
	$ 3,241,000	$ 147,000	$ -	$ 958,000	$ 2,430,000
Deducted from asset accounts:					
Year ended December 31, 1994:					
Allowance for doubtful accounts	$ 385,000	$ 54,000	$ -	$ 56,000	$ 383,000
Valuation allowance on net deferred tax assets	4,294,000	-	-	1,436,000	2,858,000
	$ 4,679,000	$ 54,000	$ -	$ 1,492,000	$ 3,241,000