VEECO INSTRUMENTS INC
Form DEF 14A
March 17, 2017
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of
the Securities Exchange Act of 1934 (Amendment No.)

Filed by the Registrant x

Filed by a Party other than the Registrant o

Check the appropriate box:

o	Preliminary Proxy Statement
o	**Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
x	Definitive Proxy Statement
o	Definitive Additional Materials
o	Soliciting Material under §240.14a-12

Veeco Instruments Inc.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

x	No fee required.	
o	Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.	
	(1)	Title of each class of securities to which transaction applies:
	(2)	Aggregate number of securities to which transaction applies:
	(3)	Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):
	(4)	Proposed maximum aggregate value of transaction:
	(5)	Total fee paid:
o	Fee paid previously with preliminary materials.	
o		

Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

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(3) Filing Party:

(4) Date Filed:

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1 Terminal Drive • Plainview, New York 11803 U.S.A. • Phone (516) 677-0200 • Fax (516) 677-0380 • www.veeco.com

March 17, 2017

2017 Annual Meeting of Stockholders

Dear Fellow Stockholder:

It is my pleasure to invite you to join me at the 2017 Annual Meeting of Stockholders of Veeco Instruments Inc. to be held on Thursday, May 4, 2017, at 8:30 a.m. Eastern Time, at 333 South Service Road, Plainview, New York 11803.

At this year s meeting, we will vote on the election of 3 directors and on the ratification of KPMG LLP as Veeco s independent registered public accounting firm. We will also conduct non-binding advisory votes (i) to approve the compensation of the Company s named executive officers, and (ii) on the preferred frequency of holding an advisory vote on executive compensation.

We use the U.S. Securities and Exchange Commission rule that allows companies to furnish proxy materials to their stockholders over the internet. We believe this expedites stockholder s receipt of proxy materials, lowers annual meeting costs and conserves natural resources. Thus, we are mailing to many stockholders a Notice of Internet Availability of Proxy Materials (Notice), rather than copies of the Proxy Statement and our 2016 Annual Report to Stockholders on Form 10-K. The Notice contains instructions on how to access the proxy materials online, vote online and obtain your copy of our proxy materials.

Your vote is very important. I encourage you to sign and return your proxy card, or use telephone or internet voting prior to the meeting, so that your shares will be represented and voted at the meeting.

Sincerely,

John R. Peeler
Chairman and Chief Executive Officer

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VEECO INSTRUMENTS INC.

NOTICE OF 2017 ANNUAL MEETING OF STOCKHOLDERS

DATE AND TIME:	Thursday, May 4, 2017, 8:30 a.m., Eastern Time
PLACE:	333 South Service Road, Plainview, New York 11803
ITEMS OF BUSINESS:	1. To elect three directors to hold office until the 2020 Annual Meeting of Stockholders; 2. To hold a non-binding advisory vote on 2016 named executive officer compensation; 3. To hold an advisory vote on the frequency of holding an advisory vote on executive compensation; 4. To ratify the appointment of KPMG LLP as our independent registered public accounting firm for 2017; and 5. To consider such other business as may properly come before the meeting.
WHO CAN VOTE:	You must be a stockholder of record at the close of business on March 13, 2017 to vote at the Annual Meeting.
INTERNET AVAILABILITY:	We are using the internet as our primary means of furnishing proxy materials to most of our stockholders. Rather than sending those stockholders a paper copy of our proxy materials, we are sending them a notice with instructions for accessing the materials and voting via the internet. **This Proxy Statement and our 2016 Annual Report on Form 10-K are available free of charge at www.veeco.com.**
PROXY VOTING:	We cordially invite you to participate in the Annual Meeting, either by attending and voting in person or by voting through other acceptable means. Your participation is important, regardless of the number of shares you own. You may vote by telephone, through the internet or by mailing your completed proxy card.

By order of the Board of Directors,

Gregory A. Robbins

Senior Vice President, General Counsel and Secretary

March 17, 2017
Plainview, New York

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PROXY STATEMENT SUMMARY

To assist you in reviewing the proposals to be acted upon at the Veeco Instruments Inc. (Veeco or the Company) 2017 Annual Meeting of Stockholders (the Annual Meeting), we call your attention to the following information about the proposals and voting recommendations, the Company s director nominees and highlights of the Company s corporate governance and executive compensation. The following description is only a summary. For more complete information about these topics, please review the complete proxy statement.

Proposals and Voting Recommendations

Voting Matters		Board Vote Recommendation
Proposal 1:	Election of three nominees named herein as directors	FOR each nominee
Proposal 2:	Advisory vote to approve the compensation of our Named Executive Officers, or Say on Pay	FOR
Proposal 3:	Advisory vote on the frequency of holding an advisory vote on executive compensation	1 YEAR
Proposal 4:	Ratification of the appointment of our independent registered public accounting firm for 2017	FOR

Summary of Information Regarding the Board of Directors

Members of Veeco s Board of Directors (Board of Directors or the Board) are listed below. Ms. Bayless and Messrs. Hunter and Simone have been nominated for re-election to the Board.

Name	Age	Director since	Independent (1)	Committee Membership AC	CC	GC	SPC
Kathleen A. Bayless	60	2016	Yes	M/FE			
Richard A. D Amore	63	1990	Yes (Lead Independent Director)		M		M
Gordon Hunter	65	2010	Yes		C	M	M
Keith D. Jackson	61	2012	Yes	M/FE		C	
John R. Peeler	62	2007	No				C
Peter J. Simone	69	2004	Yes	C/FE		M	M
Thomas St. Dennis	63	2016	Yes		M		M

(1) Independence determined based on NASDAQ rules.

AC Audit Committee

CC Compensation Committee

GC Governance Committee

SPC Strategic Planning Committee

C Chairperson

M Member

FE Audit committee financial expert (as determined based on SEC rules)

Corporate Governance Highlights

Board and Other Governance Information	As of March 13, 2017
Size of Board as Nominated	7
Average Age of Director Nominees and Continuing Directors	63
Average Tenure of Director Nominees and Continuing Directors	7.7 years
Percentage of Continuing Directors and Nominees who are Independent	85.7%
Percentage of Directors who attended at least 75% of Board Meetings	100%
Number of Director Nominees and Continuing Directors Who Serve on More Than Four Public Company Boards	0
Directors Subject to Stock Ownership Guidelines (3 times annual cash	Yes

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Board and Other Governance Information	**As of March 13, 2017**
retainers)	
Annual Election of Directors	No
Voting Standard	Majority
Plurality Voting Carve-out for Contested Elections	Yes
Separate Chairman and CEO	No
Lead Independent Director	Yes
Independent Directors Meet Without Management Present	Yes
Annual Board, Committee and Individual Director Self-Evaluations, Including Use of External Governance Advisor at Least Every 3 Years	Yes
Annual Independent Director Evaluation of CEO	Yes
Risk Oversight by Full Board and Committees	Yes
Board Orientation/Education Program	Yes
Code of Conduct Applicable to Directors	Yes
Stockholder Ability to Call Special Meetings	50% of Outstanding Shares
Stockholder Ability to Act by Written Consent	No
Poison Pill	No

Executive Compensation Highlights

Here s What We Do

Pay for Performance. We ensure that the compensation of the Chief Executive Officer (CEO) and the other named executive officers listed in the Summary Compensation Table below (NEOs) tracks the Company s performance. Our compensation programs reflect our belief that the ratio of performance-based compensation to fixed compensation should increase with the level of the executive, with the greatest amount of performance-based compensation at the CEO level.

Peer Group Selection. We made changes to our Peer Group for 2017 to more appropriately reflect our industry and size as measured by revenue and market capitalization. As a result, certain of the companies included in our previous peer group have been removed for 2017 based on their much larger size. We believe our new peer group better reflects the companies with which we compete for talent.

Performance-based Long Term Incentives. The majority of the long term incentive compensation provided to our CEO and other NEOs is awarded in the form of performance-based restricted stock units that feature a three-year target performance period, are capped at 150% of target, and are subject to 100% forfeiture.

Minimum Vesting. Our 2010 Stock Incentive Plan specifies a one year minimum vesting period for all equity awards (including, beginning in 2017, stock option awards), except for up to 5% of the maximum number of shares available or in the event of certain circumstances (e.g., death, disability, corporate transactions). Time-based awards granted to executives feature vesting periods ranging from three to four years.

Stock Option Provisions. Our 2010 Stock Incentive Plan prohibits the cash buyout of underwater stock options and the repricing of stock options without stockholder approval; the Company has not engaged in either of these practices.

Double-Trigger Change in Control Arrangements. Our Senior Executive Change in Control Policy requires both a qualifying change in control and termination of employment before

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change in control benefits, including accelerated vesting for equity awards granted after January 2014, are triggered.

Clawback Policy. In 2014, we adopted a Compensation Recoupment Policy under which, in the event of a financial restatement due to fraud or intentional illegal conduct as determined by the independent members of the Board of Directors, a culpable executive officer may be required to reimburse the Company for performance-based cash compensation if the amount of such compensation would have been lower had it been calculated based on such restated financial statements.

Stock Ownership Guidelines. In 2014, we adopted stock ownership guidelines which, subject to a phase-in period, require our NEOs and our Board of Directors to hold an amount of Veeco stock in a specified multiple of their base salaries or annual cash retainer. For example, Veeco s CEO is required to hold Veeco stock with a value equal to at least four times his base salary. Pursuant to these guidelines, covered individuals are required to hold at least 50% of the net after-tax shares realized upon vesting or exercise until the ownership guidelines are met.

Hedging and Pledging Restrictions. Our insider trading policy prohibits all employees and directors from hedging or pledging their Veeco shares.

Annual Bonus. Amounts that can be earned under our annual incentive programs are based solely on performance against corporate operating, financial and individual goals, and are capped at 200% of target.

Annual Say-on-Pay Vote. We conduct an annual Say-on-Pay advisory vote.

Stockholder Engagement. We routinely engage with stockholders and, as appropriate, with proxy advisory firms, to better understand their perspective regarding executive compensation best practices and have incorporated many of these in our executive compensation programs.

Here s What We Don t Do

No Gross-Ups. We do not provide tax gross ups for benefits that may become payable in connection with a change in control. Additionally, in 2014 we discontinued gross-ups that had been previously payable to our CEO in connection with certain transportation and housing allowances.

Limited Pension Benefits. We do not maintain a defined benefit pension plan or a supplemental executive retirement plan. The Company s 401(k) savings plan is its only pension benefit.

No Retirement Benefits. We do not maintain retirement benefits.

No Excessive Perquisites. We do not provide executives with perquisites such as financial planning, corporate aircraft, etc.

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STOCK OWNERSHIP

Security Ownership of Certain Beneficial Owners and Management

The following table sets forth certain information regarding the beneficial ownership of Veeco common stock as of March 13, 2017 (unless otherwise specified below) by (i) each person known by Veeco to own beneficially more than five percent of the outstanding shares of Veeco common stock, (ii) each director of Veeco, (iii) each NEO, and (iv) all executive officers and directors of Veeco as a group. Unless otherwise indicated, Veeco believes that each of the persons or entities named in the table exercises sole voting and investment power over the shares of Veeco common stock that each of them beneficially owns, subject to community property laws where applicable.

	Shares of Common Stock Beneficially Owned (1)			Percentage of Total Shares Outstanding (1)
	Shares	Options	Total	
5% or Greater Stockholders:				
BlackRock, Inc. (2)	6,339,981		6,339,981	15.6%
The Vanguard Group (3)	3,443,067		3,443,067	8.5%
Eagle Asset Management, Inc. (4)	2,476,215		2,476,215	6.1%
Dimensional Fund Advisors LP (5)	2,218,748		2,218,748	5.5%
Frontier Capital Management Co., LLC (6)	2,092,057		2,092,057	5.2%
Directors:				
Kathleen A. Bayless	6,993		6,993	*
Richard A. D Amore	91,698		91,698	*
Gordon Hunter	25,357		25,357	*
Keith D. Jackson	21,557		21,557	*
John R. Peeler	342,780	273,883	616,663	1.5%
Peter J. Simone	24,997		24,997	*
Thomas St. Dennis	7,005		7,005	*
Named Executive Officers:				
John R. Peeler	342,780	273,883	616,663	1.5%
William J. Miller, Ph.D.	78,273	113,173	191,446	*
Shubham Maheshwari	60,387	36,000	96,387	*
John Kiernan	32,048	48,314	80,362	*
All Directors and Executive Officers as a Group (10 persons)	691,095	471,370	1,162,465	2.9%

* Less than 1%.

(1) A person is deemed to be the beneficial owner of securities owned or which can be acquired by such person within 60 days of the measurement date upon the exercise of stock options. Shares owned include awards of restricted stock from the Company, both vested and unvested, with the exception of unvested restricted stock units and unvested performance-based restricted stock. Each person s percentage ownership is determined by assuming that stock options beneficially owned by such person (but not those owned by any other person) have been exercised.

(2) Share ownership information is based on information contained in a Schedule 13G/A filed with the SEC on January 17, 2017. The address of this holder is 55 East 52nd Street, New York, New York 10055.

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(3) Share ownership information is based on information contained in a Schedule 13G/A filed with the SEC on February 10, 2017. The address of this holder is 100 Vanguard Boulevard, Malvern, Pennsylvania 19355.

(4) Share ownership information is based on information contained in a Schedule 13G/A filed with the SEC on March 6, 2017. The address of this holder is 880 Carillon Parkway, St. Petersburg, Florida 33716.

(5) Share ownership information is based on information contained in a Schedule 13G filed with the SEC on February 9, 2017. The address of this holder is Building One, 6300 Bee Cave Road, Austin, Texas 78746.

(6) Share ownership information is based on information contained in a Schedule 13G filed with the SEC on February 10, 2017. The address of this holder is 99 Summer Street, Boston, Massachusetts 02110.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934, as amended (the Exchange Act) requires Veeco s officers and directors, and persons who own more than 10% of Veeco s common stock, to file reports of ownership and changes in ownership with the Securities and Exchange Commission (SEC). These persons are required by SEC regulations to furnish Veeco with copies of all Section 16(a) forms they file. SEC regulations require us to identify in this proxy statement anyone who filed a required report late or failed to file a required report. We note that there are certain Form 4 reports for each of our NEOs that erroneously reported the award of restricted stock as an award of restricted stock units, and these reports were subsequently amended. Other than as noted in the preceding sentence, based on our review of forms we received, or written representations from reporting persons, we believe that during 2016 all Section 16(a) filing requirements were satisfied on a timely basis.

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GOVERNANCE

Governance Highlights

Veeco s Board of Directors and management are committed to responsible corporate governance to ensure that Veeco is managed for the long-term benefit of its stockholders. To that end, the Board of Directors and management review published guidelines and recommendations of institutional stockholder organizations and current best practices of similarly situated public companies. The Board and management periodically evaluate and, when appropriate, revise Veeco s corporate governance policies and practices in light of these guidelines and practices and to comply with the requirements of the Sarbanes-Oxley Act of 2002 and the rules and listing standards issued by the SEC and by The NASDAQ Stock Market LLC (NASDAQ).

Veeco s Corporate Governance Guidelines provide that at least two-thirds of the Board of Directors must be independent in accordance with the NASDAQ listing standards. In fact, 85.7% of Veeco s seven continuing directors and nominees are independent, and none serve on more than three other public company boards. All of Veeco s directors attended at least 75% of Board and applicable committee meetings last year. Veeco undergoes an annual Board, committee and individual director self-evaluation process, and the independent directors, guided by the independent Lead Director, meet regularly without management and perform an annual performance assessment of the Chief Executive Officer.

Governance Policies and Practices

Veeco has instituted a variety of policies and practices to foster and maintain corporate governance, including the following:

Corporate Governance Guidelines - Veeco adheres to written Corporate Governance Guidelines, adopted by the Board and reviewed by the Governance Committee from time to time. The Corporate Governance Guidelines govern director qualifications, conflicts of interest, succession planning, periodic board self-assessment and other governance matters. The Board has used an outside governance advisor to facilitate the board self-assessment at least every three years.

Code of Business Conduct - Veeco maintains written standards of business conduct applicable to all of its employees worldwide.

Code of Ethics for Senior Officers - Veeco maintains a Code of Ethics that applies to its Chief Executive Officer, President, Chief Financial Officer and Chief Accounting Officer.

Environmental, Health & Safety Policy - Veeco maintains a written policy that applies to all of its employees with regard to environmental, health and safety matters.

Director Education Policy - Veeco has adopted a written policy under which it encourages directors to attend, and provides reimbursement for the cost of attending, director education programs. A majority of Veeco s Board members has attended one or more director education programs within the past five years.

Disclosure Policy **-** Veeco maintains a written policy that applies to all of its employees with regard to the dissemination of information.

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Board Committee Charters - Each of Veeco s Audit, Compensation, Governance and Strategic Planning Committees has a written charter adopted by Veeco s Board that establishes practices and procedures for each committee in accordance with applicable corporate governance rules and regulations.

Copies of each of these documents can be found on the Company s website (www.veeco.com) via the Investors page.

Independence of the Board

Veeco s Corporate Governance Guidelines provide that at least two-thirds of the Board of Directors must be independent in accordance with the NASDAQ listing standards. In addition, service on other boards must be consistent with Veeco s conflict of interest policy and the nature and time involved in such service is reviewed when evaluating suitability of individual directors for election.

Independence of Current Directors. Veeco s Board of Directors has determined that all of the directors are independent within the meaning of the applicable NASDAQ listing standards, except Mr. Peeler, the Company s Chairman and Chief Executive Officer.

Independence of Committee Members. All members of Veeco s Audit, Compensation and Governance Committees are required to be and are independent in accordance with NASDAQ listing standards.

Compensation Committee Interlocks and Insider Participation. During 2016, none of Veeco s executive officers served on the board of directors of any entity whose executive officers served on Veeco s Compensation Committee. No current or past executive officer of Veeco serves on our Compensation Committee. The members of our Compensation Committee are Messrs. D Amore, Hunter and St. Dennis.

Board Access to Independent Advisors. The Board members have full and free access to the officers and employees of Veeco and are permitted to retain independent legal, financial or other advisors as the Board or a Committee deems necessary.

Director Resignation Upon Change in Employment. The Corporate Governance Guidelines provide that a director shall submit his resignation if he changes his principal employment, from what it was when he was elected as a director, or undergoes a change affecting his qualification as a director or fails to receive the required number of votes for re-election. Upon such submission, the Board shall determine whether to accept or reject the resignation. If the resignation is tendered for failure to receive the required number of votes for re-election, the Governance Committee will also inform the Board of any other action it recommends be taken.

Board Leadership Structure

Mr. Peeler, the Company s Chief Executive Officer, also serves as Chairman of the Board. We have a separate, independent Lead Director. Although we do not have a formal policy addressing the topic, we believe that when the Chairman of the Board is an employee of the Company or otherwise not independent, it is important to have a separate Lead Director, who is an independent director.

Mr. D Amore serves as the Lead Director. In that role, he presides over the Board s executive sessions, during which our independent directors meet without management, and he serves as

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the principle liaison between management and the independent directors of the Board. The Lead Director also:

- Confers with the Chairman of the Board regarding Board meeting agendas;
- Has the authority to call meetings of the independent directors;
- Chairs meetings of the independent directors including, where appropriate, setting the agenda and briefing the Chairman of the Board on issues discussed during the meeting;
- Oversees the annual performance evaluation of the CEO;
- Consults with the Governance Committee and the Chairman of the Board regarding assignment of Board members to various committees; and
- Performs such other functions as the Board may require.

Mr. D Amore has served as Lead Director since 2016.

We believe the combination of Mr. Peeler as our Chairman of the Board and an independent director as our Lead Director is an effective structure for the Company. The division of duties and the additional avenues of communication between the Board and our management associated with this structure provide the basis for the proper functioning of our Board and its oversight of management.

Oversight of Risk Management

The Board has an active role, as a whole and also at the committee level, in overseeing management of the Company s risks. The Board regularly reviews information regarding the Company s strategy, finances and operations, as well as the risks associated with each. The Audit Committee is responsible for oversight of Company risks relating to accounting matters, financial reporting, internal controls and legal and regulatory compliance. The Audit Committee undertakes, at least annually, a review to evaluate these risks. Individual members of the Audit Committee are each assigned an area of risk to oversee. The members then meet separately with management responsible for such area, including the Company s chief accounting officer, internal auditor and general counsel, and report to the Audit Committee on any matters identified during such discussions with management. In addition, the Governance Committee manages risks associated with the independence of the Board and potential conflicts of interest. The Company s Compensation Committee is responsible for overseeing the management of risks relating to the Company s executive compensation plans and arrangements. While each committee is responsible for evaluating certain risks and overseeing the management of such risks, the entire Board is regularly informed through committee reports about such risks.

Compensation Risk

Our Compensation Committee conducted a risk-assessment of our compensation programs and practices and concluded that our compensation programs and practices, as a whole, are appropriately structured and do not pose a material risk to the Company. Our compensation programs are intended to reward the management team and other employees for strong performance over the long-term, with consideration to near-term actions and results that strengthen and grow our Company. We believe our compensation programs provide the appropriate balance between short-term and long-term incentives, focusing on sustainable operating success for the Company. We consider the potential risks in our business when designing and administering our compensation programs and we believe our balanced approach to performance measurement and compensation decisions works to mitigate the risk that individuals will be encouraged to undertake excessive or inappropriate risk. Further, our compensation program administration is subject to considerable internal controls and when

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determining the principal outcomes performance assessments and compensation decisions we rely on principles of sound governance and good business judgment.

Board Meetings and Committees

During 2016, Veeco s Board held seven meetings. Each Director attended at least 75% of the meetings of the Board and Board committees on which such Director served during 2016. It is the policy of the Board to hold executive sessions without management at every regularly scheduled board meeting and as requested by a director. The Lead Director presides over these executive sessions. All members of the Board are welcome to attend the Annual Meeting of Stockholders. In 2016, Mr. Peeler was the only director who attended the Annual Meeting. The Board has established the following committees: an Audit Committee, a Compensation Committee, a Governance Committee and a Strategic Planning Committee.

Audit Committee. As defined in Section 3(a)(58)(A) of the Exchange Act, the Company established an Audit Committee which reviews the scope and results of the audit and other services provided by Veeco s independent registered public accounting firm. The Audit Committee consists of Ms. Bayless and Messrs. Jackson and Simone (Chairman). The Board has determined that all members of the Audit Committee are financially literate as that term is defined by NASDAQ and by applicable SEC rules. The Board has determined that each of Ms. Bayless and Messrs. Jackson and Simone is an audit committee financial expert as defined by applicable SEC rules. During 2016, the Audit Committee met six times.

Compensation Committee. The Compensation Committee sets the compensation levels of senior management and administers Veeco s equity compensation plans. All members of the Compensation Committee are non-employee directors (within the meaning of Rule 16b-3 of the Exchange Act), and outside directors (within the meaning of Section 162(m) of the Internal Revenue Code of 1986, as amended). None of the members of the Compensation Committee has interlocking relationships as defined by the SEC. The Compensation Committee consists of Messrs. D Amore, St. Dennis and Hunter (Chairman). During 2016, the Compensation Committee met seven times.

Governance Committee. The Company s Governance Committee addresses Board organizational issues and develops and reviews corporate governance principles applicable to Veeco. In addition, the committee searches for persons qualified to serve on the Board of Directors and makes recommendations to the Board with respect thereto, as more fully described below. The Governance Committee is comprised entirely of independent directors, as defined by the NASDAQ listing standards, and currently consists of Messrs. Hunter, Simone and Jackson (Chairman). During 2016, the Governance Committee met four times.

Strategic Planning Committee. The Company s Strategic Planning Committee oversees the Company s strategic planning process. The Strategic Planning Committee consists of Messrs. D Amore, Hunter, Simone, St. Dennis and Peeler (Chairman). The Strategic Planning Committee met once during 2016.

Board Composition and Nomination Process

Pursuant to our Corporate Governance Guidelines, the Governance Committee will evaluate the suitability of potential nominees for membership on the Board, taking into consideration the Board s current composition, including expertise, diversity and balance of inside, outside and independent directors, and considering the general qualifications of the potential nominees, including those characteristics described in the Corporate Governance Guidelines as in effect from time to time. In selecting the director nominees, the Board endeavors to establish a

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diversity of background and experience in a number of areas of core competency, including business judgment, management, accounting and finance, knowledge of the industries in which the Company operates, understanding of manufacturing and services, strategic vision, knowledge of international markets, marketing, research and development and other areas relevant to the Company s business. Under our Corporate Governance Guidelines, the Board periodically conducts a critical self-evaluation, including an assessment of the make-up of the Board as a whole. In any particular situation, the Governance Committee may focus on persons possessing a particular background, experience or qualifications which the committee believes would be important to enhance the effectiveness of the Board. The full Board reviews and has final approval authority on all potential director candidates being recommended to the stockholders for election.

Compensation of Directors

For services performed in 2016, Veeco s Director Compensation Policy provides that members of the Board of Directors who are not employees of Veeco shall be paid quarterly retainers as follows: for service as a Board member, $17,500, as chair of the Audit Committee, $5,000, as chair of the Compensation Committee, $3,750, as chair of the Governance Committee, $2,500, as chair of the Strategic Planning Committee, $2,500, and as Lead Director, $4,250. Each non-employee Director shall also receive an annual grant of shares of restricted stock having a fair market value in the amount determined by the Compensation Committee from time to time. For 2016, the Compensation Committee determined that the value of this annual award should be $120,000 per director. The restrictions on these shares lapse on the earlier of the first anniversary of the date of grant and the date immediately preceding the date of the next annual meeting of stockholders. In addition, the Company s Director Compensation Policy in effect for 2016 gives the Board the authority to compensate directors who perform significant additional services on behalf of the Board or a Committee. Such compensation is to be determined by the Board in its discretion, taking into consideration the scope and extent of such additional services. Directors who are employees, such as Mr. Peeler, do not receive additional compensation for serving as directors.

The following table provides information on compensation awarded or paid to the non-employee directors of Veeco for the fiscal year ended December 31, 2016.

Name	Fees Earned or Paid in Cash ($)(1)	Stock Awards ($)(2)(3)	All Other Compensation ($)(4)	Total ($)
Kathleen A. Bayless	35,000	120,000		155,000
Edward H. Braun (5)	30,126		770	30,896
Richard A. D Amore	81,097	119,996		201,093
Gordon Hunter	85,000	119,996		204,996
Keith D. Jackson	77,500	119,996		197,496
Roger D. McDaniel (5)	30,208			30,208
Peter J. Simone	90,000	119,996		209,996
Thomas St. Dennis	45,694	119,996		165,690
Susan Wang (6)	17,500			17,500

(1) Represents quarterly retainers paid for Board service during 2016. For Mr. Braun, includes payments under a Service Agreement dated January 1, 2012, which set forth the compensation paid to Mr. Braun for his service on the Board.

(2) Reflects awards of 7,005 shares of restricted stock to each director on May 6, 2016, other than for Ms. Bayless, who received an award of 6,993 shares of restricted stock on July 21, 2016, the date on which she joined the Board. These restricted stock awards vest on the

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earlier of (i) the first anniversary of the date of grant, and (ii) the date immediately preceding the date of the next annual meeting of stockholders. In accordance with SEC rules, the amounts shown reflect the grant date fair value of the award, which was $17.13 per share for awards made on May 6, 2016, and $17.16 per share for Ms. Bayless award on July 21, 2016.

(3) As of December 31, 2016, there were outstanding the following aggregate number of stock awards and option awards held by each non-employee director of the Company:

Outstanding Equity Awards at Fiscal Year End

Name	Stock Awards (#)	Option Awards (#)
Kathleen A. Bayless	6,993	
Richard A. D Amore	7,005	
Gordon Hunter	7,005	
Keith D. Jackson	7,005	
Peter J. Simone	7,005	
Thomas St. Dennis	7,005	

(4) All Other Compensation consists of premiums for group term life insurance payable to Mr. Braun under his Service Agreement dated January 1, 2012.

(5) Messrs. Braun and McDaniel retired from the Board following the Company s annual meeting of stockholders held on May 5, 2016.

(6) Susan Wang ceased being a director following her death on March 8, 2016.

Stock Ownership Guidelines: Directors

In January 2014, the Company established stock ownership guidelines for the Company s Directors. Under these guidelines, each covered individual has five years to reach the minimum levels of Veeco common stock ownership identified by the Stock Ownership Guidelines. The Company s Directors are required to hold Veeco stock with a value equal to at least three times the Directors annual cash retainers (excluding retainers for committee or lead director service), measured as of February 1st of the most recently completed year.

Certain Contractual Arrangements with Directors and Executive Officers

Veeco has entered into indemnification agreements with each of its directors, executive officers and certain senior officers and anticipates that it will enter into similar agreements with any future directors and executive officers. Generally, the indemnification agreements are designed to provide the maximum protection permitted under Delaware law with respect to indemnification of a director or executive officer. The indemnification agreements provide that Veeco will indemnify such persons against certain liabilities that may arise by reason of their status or service as a director or executive officer of the Company and that the Company will advance expenses incurred as a result of proceedings against them as to which they may be indemnified. Under the indemnification agreements, a director or executive officer will receive indemnification if he or she is found to have acted in good faith and in a manner he or she reasonably believed to be in, or not opposed to, the best interests of Veeco and with respect to any criminal action, if he or she had no reasonable cause to believe his or her conduct was unlawful.

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COMPENSATION

Executive Officers

The executive officers of Veeco, their ages and positions as of March 13, 2017, are as follows:

Name	Age	Position
John R. Peeler	62	Chairman and Chief Executive Officer
William J. Miller, Ph.D.	48	President
Shubham Maheshwari	45	Executive Vice President and Chief Financial Officer
John P. Kiernan	54	Senior Vice President, Finance, Chief Accounting Officer, Corporate Controller and Treasurer

John R. Peeler has been Chief Executive Officer and a Director of Veeco since July 2007, and Chairman since May 2012. Prior thereto, he was Executive Vice President of JDS Uniphase Corp. (JDSU) and President of the Communications Test & Measurement Group of JDSU, which he joined upon the closing of JDSU s merger with Acterna in August 2005. Before joining JDSU, Mr. Peeler served as President and Chief Executive Officer of Acterna. Mr. Peeler joined a predecessor of Acterna in 1980 and served in a series of increasingly senior leadership roles including Vice President of Product Development, Executive Vice President and Chief Operating Officer, and President and CEO of TTC, the communications test equipment company. Mr. Peeler also serves on the board of IPG Photonics Corporation.

William J. Miller, Ph.D. has been President since January 2016, overseeing all of Veeco s global business units. He was Executive Vice President, Process Equipment beginning in December 2011, and was Executive Vice President, Compound Semiconductor from July 2010 until December 2011. Prior thereto, Dr. Miller was Senior Vice President and General Manager of Veeco s MOCVD business beginning in January 2009. From January 2006 to January 2009, Dr. Miller was Vice President, General Manager of Veeco s Data Storage equipment business. He held leadership positions of increasing responsibility in both the engineering and operations organizations since he joined Veeco in November 2002. Prior to joining Veeco, Dr. Miller held a range of engineering and operations leadership positions at Advanced Energy Industries, Inc.

Shubham (Sam) Maheshwari has been Executive Vice President and Chief Financial Officer of Veeco since May 2014. He oversees Veeco s Finance, Information Technologies and Global Operations functions. From 2011 to 2014, Mr. Maheshwari served as Chief Financial Officer of OnCore Manufacturing LLC, a global manufacturer of electronic products in the medical, aerospace, defense and industrial markets. From 2009 to 2011, he held various finance roles including Senior Vice President Finance, Treasury, Tax and Investor Relations at Spansion, Inc., a global leader in flash memory based embedded system solutions. Mr. Maheshwari helped lead Spansion s emergence from bankruptcy to become a successful public company. From 1998 to 2009, he was with KLA-Tencor Corporation, a global semiconductor capital equipment manufacturing company, in various senior level corporate development and finance roles, including Vice President of Corporate Development and Corporate Controller.

John P. Kiernan has been Senior Vice President, Finance, Chief Accounting Officer, Corporate Controller and Treasurer since December 2011. From July 2005 to November 2011, he was Senior Vice President, Finance, Chief Accounting Officer and Corporate Controller. Prior thereto, he was Vice President, Finance and Corporate Controller of Veeco from April 2001 to June 2005, Vice President and Corporate Controller from November 1998 to March 2001, and Corporate Controller from February 1995 to November 1998. Prior to joining Veeco,

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Mr. Kiernan was an Audit Senior Manager at Ernst & Young LLP from October 1991 through January 1995 and held various audit staff positions with Ernst & Young LLP from June 1984 through September 1991.

Compensation Discussion and Analysis

Veeco provides high-tech capital equipment solutions used in the manufacturing of light emitting diodes (LEDs), micro-electromechanical systems (MEMS), radio frequency (RF) filters, wireless devices, power electronics, hard disk drives (HDDs), and semiconductor devices. These help enable key global trends such as improving energy efficiency, enhancing mobility and increasing connectivity. As is customary with the capital equipment industry, our businesses are highly-specialized, highly-cyclical in nature, characterized by periods of significant volatility and difficult to predict. Our products require significant R&D investment sustained over a long period of time. Our customers buying patterns are highly dependent on technology trends and industry supply and demand situations. In the LED industry, our largest business, capacity expansion has also been influenced significantly by government subsidy programs in China.

Our executive compensation programs are designed to face these challenges, to align our costs with prevailing market conditions, to balance the short- and long-term interests of both stockholders and executives and, at the same time, retain and continue to attract executives throughout inherent downturns, motivating them for our longer term success.

The Company seeks to foster a performance-oriented culture by linking a significant portion of each executive s compensation to the achievement of performance targets important to the success of the Company and its stockholders. This Compensation Discussion and Analysis describes Veeco s current compensation programs and policies, which are subject to change. We structure our executive compensation program each year so that a meaningful percentage of compensation is tied to the achievement of objectives that, at the time they are established, are considered challenging in light of the then anticipated market conditions.

2016 Business Highlights

- Reflecting the industry cyclicality our revenues declined to $332 million as weak LED industry conditions persisted through the first half of 2016 and adversely impacted demand for our Metal Organic Chemical Vapor Deposition (MOCVD) equipment.

- We therefore completed a restructuring program to enhance our profitability and executed plans to lower the Company s annual cost structure by approximately $30 million.

- We increased gross margins for the third consecutive year, delivering on our objective to achieve gross margins of 40% or better. We delivered higher gross margins in 2016 even though revenues declined amidst weakness in the LED industry.

- We continued to strengthen our MOCVD technology portfolio with the successful launch of the K475iTM As/P MOCVD system for red, orange and yellow (ROY) LEDs which complements our industry leading EPIKTM 700 GaN MOCVD system for blue LEDs.

- We increased sales into the Advanced Packaging, MEMS and RF markets by 10%, reflecting our successful penetration into the Advanced Packaging field with our Precision Surface Processing (PSP) solutions.
- We deployed $13 million to repurchase approximately 730,000 shares of common stock.
- We saw a 42% increase in our stock price reflecting growing confidence in our Company.

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Executive Compensation Strategy and Objectives

The Company s executive compensation strategy is designed to deliver competitive, performance-based total compensation that reflects our culture and the markets we serve. The primary objectives of Veeco s executive compensation programs are to attract, retain and motivate executives critical to the Company s long-term growth and success. The Company s executive compensation programs are designed to reward executives for increasing stockholder value without subjecting the Company or stockholders to unnecessary or unreasonable risks. The Company has adopted the following guiding principles:

Performance-based: Compensation levels should be determined based on Company financial performance and individual results compared to quantitative and qualitative performance priorities set at the beginning of the performance period. Additionally, the ratio of performance-based compensation to fixed compensation should increase with the level of the executive, with the greatest amount of performance-based compensation at the CEO level. Performance-based compensation should be subject to a complete risk of forfeiture.

Stockholder-aligned: A significant portion of potential compensation should be performance- and equity-based to more closely align the interests of executives with those of our stockholders.

Fair and Competitive: Compensation levels should be fair, internally and externally, and competitive with overall compensation levels at other companies with which we compete for talent. Our compensation programs should promote our ability to both attract and retain our employees, including our executives.

Our target pay mix places a significant emphasis on performance-based variable compensation (performance-based restricted stock unit (PRSU) awards and target bonus). As illustrated below, 57% of our target CEO and 48% of our other named executive officer (NEO) compensation packages are comprised of performance-based variable compensation (Veeco s NEOs are identified in the Summary Compensation Table).

CEO Compensation Elements | **Other NEO Compensation Elements**

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Executive Compensation Governance and Procedures

The Compensation Committee (hereinafter in this Compensation Discussion and Analysis section, the Committee) administers the Company s compensation programs operating under a charter adopted by the Board. This charter authorizes the Committee to interpret the Company s compensation and equity plans and establish rules for their implementation and administration. The Committee consists of three independent directors who are appointed annually. The Committee works closely with the CEO and the Senior Vice President, Human Resources and relies on information provided by independent compensation consultants.

When making compensation decisions, the Committee considers the compensation practices and the competitive market for executives at companies with which we compete for talent. To this end, the Company utilizes a number of resources which, during 2016, included: meetings with Compensation Strategies, Inc., an independent compensation consultant; compensation surveys prepared by Radford; and executive compensation information compiled by Compensation Strategies, Inc. from the proxy statements of other companies, including a peer group.

Veeco s peer group (the Peer Group) reflects the companies that closely resemble Veeco based on industry and competition for talent. The Peer Group has been comprised of companies smaller than, similar to and larger than Veeco. The Company s compensation consultant uses statistical regression techniques to adjust market data to construct market pay levels that are reflective of Veeco s size based on revenues. For 2016, the Peer Group consisted of the following fifteen companies:

Advanced Energy Industries, Inc.	MKS Instruments, Inc.
Applied Materials, Inc.	Nanometrics Incorporated
Axcelis Technologies, Inc.	Newport Corporation
Brooks Automation, Inc.	Rudolph Technologies, Inc.
Cohu, Inc.	Teradyne, Inc.
KLA-Tencor Corporation	Ultratech, Inc.
Kulicke and Soffa Industries, Inc.	Xcerra Corporation
Lam Research Corporation	

In 2017, the Compensation Committee reviewed our Peer Group strategy and made changes to more closely align with Veeco s market segments and size as measured by revenue and market capitalization. This resulted in a 2017 Peer Group of seventeen companies:

3D Systems Corporation	Kulicke and Soffa Industries, Inc.
Advanced Energy Industries, Inc.	MKS Instruments, Inc.
Badger Meter, Inc.	OSI Systems, Inc.
Brooks Automation, Inc.	Photronics, Inc.
Cabot Microelectronics Corporation	Pure Storage, Inc.
Cray Inc.	Rudolph Technologies, Inc.
Entegris, Inc.	Semtech Corporation
FormFactor, Inc.	Tessera Holding Corporation
MACOM Technology Solutions	

The Company considers the executive compensation practices of the companies in its Peer Group and the Radford survey (hereinafter collectively, the market data) as one of several factors used in setting compensation. The Company uses the market data as a reference point in its determination of compensation. For 2016, total compensation of Veeco s NEOs and other executives is generally between the 50th and 75th percentile of the market, although individuals may be compensated above or below this level for various reasons, including, but not limited to, competitive factors, Veeco s financial and operating performance and consideration of individual performance and experience.

In addition to reviewing the market data, the Committee meets with the Company s CEO and Senior Vice President, Human Resources to consider recommendations with respect to compensation for the NEOs and other executives. These recommendations include base salary levels, cash bonus targets and awards, and equity compensation awards. The Committee considers these recommendations along with other factors in determining specific compensation levels for the NEOs. The Committee discusses the elements of the CEO s compensation with him, but makes the final decisions regarding his compensation without him present.

Decisions regarding the Company s compensation program elements are made by the Committee in regularly scheduled and ad hoc meetings. Issues of significant importance are

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frequently discussed over several meetings. This practice provides the Committee with the opportunity to raise and address concerns before arriving at a decision. Prior to each meeting, the Committee is provided with the written materials, information and analyses as may be required to assist the Committee in its decision-making process. To the extent possible, meetings of the Committee are conducted in person. When this is not possible, meetings are conducted telephonically. The CEO and the Senior Vice President, Human Resources are regularly invited to attend Committee meetings but the Committee meets privately in executive sessions to consider certain matters including, but not limited to, the compensation of the CEO.

Elements of Our Executive Compensation Program

Our compensation programs are comprised of four elements: base salary, cash bonus, equity-based compensation and benefits and perquisites. Each of these elements is used to attract executives and reward them for performance results as described below:

Element	Description / Characteristics	Primary Objectives
Base Salary	• Annual cash compensation	• Attract and retain highly qualified talent
Annual Cash Incentive	• 100% Performance-based cash compensation • Mix of annual financial (75%) and individual goals (25%)	• Align executive compensation with annual goals important to the success of the Company • Promote a pay-for-performance culture
Equity-based Compensation	• Combination of time- and performance-based awards (performance-based comprising the majority) • Long-term (typically 3 4 years) stock-based compensation • Majority of awards granted with target performance period of 3 years • PRSU awards earned based on financial and operational metrics and subject to forfeiture	• Incentivize long-term performance • Serve as a retention incentive • Align the interests of executives with stockholders in the creation of long-term value • Foster a culture of stock ownership
Benefits & Perquisites	• Senior Executive Change in Control Policy	• Promote productivity, remain competitive, and increase employee loyalty to the Company.

- Company-subsidized health and welfare benefits
- 401(k) Savings Plan

The Company evaluates each element of each executive s compensation individually and in the aggregate against market data for the position, experience, individual performance and the ability to affect future Company performance. The sections below describe the process for determining each of the four elements of the executive compensation program.

Base Salary

The Company pays base salaries to attract and retain executives. Base salaries are determined in accordance with the responsibilities of each executive, market data for the position and the executive s experience and individual performance. The Company considers each of these factors but does not assign a specific value to any one factor.

Base salaries for executives are typically set during the first half of the year in conjunction with the Company s annual performance management process. In 2016, following a review of the market data and management s recommendations, the Committee increased base salaries as illustrated below:

Name		**April 2015**		**April 2016**	**Percent Increase**
J. Peeler	$	700,000	$	700,000	No Change(1)
W. Miller	$	435,000	$	460,000	5.7%(2)
S. Maheshwari	$	420,000	$	430,000	2.4%
J. Kiernan	$	300,000	$	300,000	No Change

(1) Mr. Peeler s base salary has not been increased since April 2011.

(2) Dr. Miller s base salary was increased to $460,000 in January 2016 in connection with his promotion to President.

Cash Bonus Plan

The Company provides the opportunity for cash bonuses under its annual bonus plan to attract executives and reward them for performance consistent with the belief that a significant portion of the compensation of its executives should be performance-based. As a result, individuals are compensated based on the achievement of specific financial and individual performance goals intended to correlate closely with stockholder value. The Company believes that the opportunity to earn cash bonuses motivates executives to meet Company performance objectives that, in turn, are linked to the creation of stockholder value. The Company utilizes profitability, as measured by earnings before interest, taxes, depreciation and amortization (EBITDA) compared to that of the business plan, as the primary element of its bonus plan. Secondary elements are determined each year based on a review of the Company s business plan and critical objectives. The cost of bonus awards is factored into financial performance results before bonus results are determined, ensuring that the cost of our bonus plan is included in our

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financial results. To help achieve our goal of retaining key talent, executives must generally be employees at the time awards are paid to be eligible to receive a bonus for that period.

On February 4, 2016, the Committee approved the 2016 Bonus Plan (the 2016 Plan) and the specific metrics thereof. Under the 2016 Plan, 75% of the potential bonus is based on the financial performance of the Company (the Financial Element), as measured first by adjusted EBITDA and then by the ratio of bookings to revenue (Book:Bill). We define adjusted EBITDA as earnings before interest, taxes, depreciation and amortization, adjusted to exclude share-based compensation expense, one-time charges relating to restructuring initiatives, non-cash asset impairments, certain other non-operating gains and losses, and acquisition-related items such as one-time transaction costs and the stepped-up cost of sales associated with the purchase accounting of acquired inventory. If adjusted EBITDA, after accounting for the cost of bonus payments, exceeds a predetermined threshold, targets are adjusted, ranging from 25% (for threshold performance) to 50% (for achievement of Business Plan) to 100% (for stretch target performance) to 200% (for maximum or greater performance). No awards for the Financial Element are earned if adjusted EBITDA is less than the threshold performance level. If adjusted EBITDA is at or above threshold, the adjusted targets are compared to the secondary performance measure: Book:Bill. Awards under the secondary performance measure range from 90% of target to 100% (for target performance) to 110% (for maximum performance). Actual bonus awards for the Financial Element are based on these measures, each as compared to predetermined targets. For 2016, EBITDA was less than the threshold performance level. As a result, awards for the Financial Element of the Plan were not earned for 2016.

Under the 2016 Plan, 25% of the potential bonus is based on individual performance measured against pre-established performance goals (the Individual Element), provided a minimum level of EBITDA is achieved. If this minimum level of EBITDA is achieved, the Individual Element of the bonus will be funded and actual awards for individual performance will be paid from a fixed pool, and may range from zero to 150% of the target for individual performance. In 2016, the Company achieved the minimum level of EBITDA required to pay the Individual Element.

Mr. Peeler s individual performance goals for 2016 were set by the Board at the beginning of the year and included: (1) improve profitability, (2) manage the Company s businesses for increased growth and capture new market opportunities, (3) rationalize the Company s Atomic Layer Deposition (ALD) business, (4) execute the Company s acquisition strategy, (5) lead through unexpected adversity and opportunity to maximize shareholder value, (6) organizational development, and (7) financial improvement. The Board discussed Mr. Peeler s overall performance in executive session and determined that Mr. Peeler performed well against the stated goals, continuing to demonstrate strong leadership during a very challenging year. Notwithstanding the terms of the 2016 Plan, under which Mr. Peeler was eligible for an individual performance award with a target value of $201,250, the Committee exercised discretion and, having previously increased the value of Mr. Peeler s equity-based compensation for 2016 (the majority of which is performance-based as described in the Equity-Based Compensation section below), determined that Mr. Peeler would not receive a cash bonus.

Actual awards for the other NEO s individual performance were based on results compared to goals set by Mr. Peeler at the beginning of the year in connection with the Company s performance management process. The individual performance goals for the other NEOs included functional objectives and individual objectives related to specific initiatives. The goals were not weighted and the award was considered on the totality of the individual performance results for each executive. After evaluation, Mr. Peeler made individual performance recommendations to the Committee, for each of the other NEOs, as set forth in the table below.

Total bonus awards under the 2016 Plan are capped at 200% of target bonus.

Messrs. Peeler, Maheshwari and Kiernan and Dr. Miller earned 2016 Plan awards as follows:

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2016 Bonus Awards