

VEECO INSTRUMENTS INC  
Form DEF 14A  
March 31, 2006

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

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- Definitive Proxy Statement
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**Veeco Instruments Inc.**  
(Name of Registrant as Specified In Its Charter)

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

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**VEECO INSTRUMENTS INC.**

**100 Sunnyside Boulevard, Suite B**

**Woodbury, NY 11797**

***NOTICE OF ANNUAL MEETING***

Dear Veeco Stockholder:

On Friday, May 5, 2006, Veeco Instruments Inc. will hold its 2006 Annual Meeting of Stockholders at the Corporate Center, 395 North Service Road, Lower Auditorium, Melville, New York. The meeting will begin at 9:30 a.m. At the meeting, we will consider:

1. Election of three directors;
2. Ratification of the appointment of our independent registered public accounting firm for fiscal year 2006; and
3. Any other business properly presented at the meeting.

Only stockholders who own stock at the close of business on March 9, 2006 can vote at this meeting or any adjournments that may take place. For ten days prior to the annual meeting, a list of these stockholders will be available for inspection at our principal executive offices, 100 Sunnyside Boulevard, Suite B, Woodbury, NY 11797. A stockholder may examine the list for any legally valid purpose related to the meeting.

**Your Board of Directors recommends that you vote in favor of proposals 1 and 2 above, which are further described in this proxy statement. This proxy statement also outlines the corporate governance practices at Veeco, discusses our compensation practices and philosophy, and describes the Audit Committee's recommendations to the Board regarding our 2005 financial statements. We encourage you to read these materials carefully.**

**Whether or not you expect to attend the meeting, we urge you to vote promptly.**

The approximate date of mailing for this proxy statement and card as well as a copy of Veeco's 2005 Annual Report is March 31, 2006. For more information about Veeco, please visit our website at [www.veeco.com](http://www.veeco.com).

By order of the Board of Directors,

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

March 31, 2006

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**PROXY STATEMENT**

**QUESTIONS AND ANSWERS**

**Q1. Who is entitled to vote?**

A. You may vote if our records show that you owned shares of Veeco Instruments Inc. common stock on March 9, 2006, the record date. At the close of business on that date, 30,152,702 shares of Veeco common stock were issued and outstanding. You are entitled to one vote for each share that you own.

**Q2. How can I vote if I own shares directly?**

A. If your shares are registered directly in your name with our transfer agent, then you are considered the stockholder of record with respect to those shares and these proxy materials are being sent directly to you. Stockholders of record may vote by (1) *marking, signing, dating and mailing* each proxy card in the envelope provided or (2) *attending the meeting* and voting in person.

**Q3. How can I vote if my shares are held through a brokerage, bank or similar organization?**

A. If your shares are held in *street name* (that is, they are held in the name of a broker, bank or similar organization), you are considered the beneficial holder of such shares and these proxy materials are being forwarded to you by such organization. The organization holding your account is considered the stockholder of record for purposes of voting at the Annual Meeting. As a beneficial owner, you have the right to direct the stockholder of record on how to vote the shares in your account. If you do not give instructions to your record holder on how to vote, the record holder will be entitled to vote your shares in its discretion. Please follow the voting instructions provided by the organization holding your shares to ensure your vote is counted. If you are not the stockholder of record, you may not vote your shares in person at the Annual Meeting unless you request and obtain a valid proxy from the stockholder of record.

**Q4. Can my broker vote my shares if I do not instruct him or her how to vote?**

A. Yes, if you are a beneficial owner of shares and you do not give instructions to your record holder, the record holder will be entitled to vote your shares in its discretion on discretionary items. Both Proposals 1 and 2 are considered to be discretionary items. Discretionary items are items considered routine.

**Q5. What if I return a proxy card but do not make specific choices?**

A. If you return a signed and dated proxy card without marking any voting selections, your Veeco shares will be voted FOR the election of all three nominees for director and FOR the ratification of the selection of Ernst & Young LLP as Veeco's independent registered public accounting firm for the fiscal year ending December 31, 2006. If any other matter is properly presented at the meeting, your proxy (one of the individuals named on your proxy card) will vote your shares using his best judgment.

**Q6. How do I revoke or change my vote?**

A. If you are a stockholder of record, you may revoke or change your vote by:

- (1) *notifying* Veeco's transfer agent, American Stock Transfer and Trust Company, 6201 15th Avenue, Brooklyn, NY 11219, in writing at any time before the meeting;
  - (2) *submitting* a later-dated proxy; or
  - (3) *voting* in person at the meeting.
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The latest-dated, timely, properly completed proxy that you submit will count as your vote. If a vote has been recorded for your shares and you submit a proxy card that is not properly signed or dated, the previously recorded vote will stand.

If you hold your shares in street name, consult the voting instructions provided by the organization holding your shares or contact such organization for instructions on how to revoke or change your vote.

**Q7. What is a quorum ?**

A. A quorum is a majority of the outstanding shares present at the meeting or represented by proxy. There must be a quorum for the meeting to be held. If you submit a timely, properly executed proxy or vote instruction card, then you will be considered part of the quorum, even if you abstain from voting. In addition, shares represented by proxies designated as broker non-votes will be counted for purposes of determining a quorum.

*Abstentions:* Abstentions are not counted in the tally of votes FOR or AGAINST a proposal. A WITHHELD vote is the same as an abstention. Abstentions and withheld votes are counted as shares present and entitled to be voted.

*Broker Non-Votes:* Broker non-votes occur when shares held by a broker or other nominee are not voted with respect to a proposal because (1) the broker has not received voting instructions from the stockholder, and (2) the broker lacks the authority to vote the shares at his/her discretion. Broker non-votes are not counted in the tally of votes FOR or AGAINST a proposal but are counted as shares present and entitled to be voted.

**Q8. How many votes are needed to approve each proposal?**

A. Directors are elected by a plurality of the votes cast at the meeting. The three nominees receiving the most FOR votes among votes properly cast at the meeting will be elected. Veeco's Bylaws provide that corporate action to be taken by stockholder vote, other than the election of directors, shall be authorized by a majority of the votes cast at a meeting of the stockholders at which a quorum is present. Therefore, to be approved, Proposal 2 must receive a FOR vote from a majority of the Veeco shares represented at the meeting.

**Q9. How will voting on any other business be conducted?**

A. Although we do not know of any business to be considered at the 2006 Annual Meeting other than the proposals described in this proxy statement, if any other business is presented at the Annual Meeting, your signed proxy or vote instruction card gives authority to Edward H. Braun, Veeco's Chairman and Chief Executive Officer, and John F. Rein, Jr., Veeco's Executive Vice President, Chief Financial Officer and Secretary, to vote on such matters at their discretion.

**Q10. Who will count the vote?**

A. Representatives of American Stock Transfer and Trust Company, Veeco's transfer agent, will count the vote and act as the inspector of election.

**Q11. How can I find out the results of the voting at the Annual Meeting?**

A. Preliminary voting results will be announced at the Annual Meeting. Final voting results will be published in Veeco's quarterly report on Form 10-Q for the second quarter of 2006.

**Q12. Who can attend the Annual Meeting?**

A. All stockholders who owned shares on March 9, 2006 may attend.

**Q13. What does it mean if I get more than one proxy or vote instruction card?**

A. If your shares are registered in more than one name or in more than one account, you will receive more than one card. Please complete and return all of the proxy or vote instruction cards you receive to ensure that all of your shares are voted.

**Q14. If I received multiple copies of the proxy statement and annual report at my residence, what do I need to do to receive only one copy?**

A. With your consent and the consent of other shareholders in your household, we may send one set of the proxy statement and annual report to a household where two or more Veeco stockholders reside if we believe they are members of the same family. Each consenting stockholder would continue to receive a separate notice of annual meeting and proxy card. This procedure, referred to as householding, would reduce the volume of duplicate information you receive, and would also reduce the Company's printing and mailing costs. If you are an eligible stockholder and would like to receive only one copy of the proxy statement and annual report, please contact the Company by sending a written request to the Secretary, Veeco Instruments Inc., 100 Sunnyside Boulevard, Suite B, Woodbury, NY 11797 or by calling 516-677-0200. Your consent will remain in effect unless Veeco receives contrary instructions from you or other shareholders in your household. Should you revoke your consent, Veeco will begin sending individual copies of the annual report and proxy statement to you within thirty (30) days of your revocation. Also, if you would like to obtain a separate copy of the annual report or proxy statement, you may direct your request to the address above, or you may call 516-677-0200. If you hold your shares in street name, please contact your broker.

**Q15. I have Veeco shares that are held in street name, as do others in my household. We received only one copy of the proxy statement and annual report. What should I do if I would like additional copies of these materials?**

A. Some brokerage firms have instituted householding in connection with the delivery of annual reports and proxy statements (see the answer to Question 14). If your family holds Veeco shares in multiple brokerage accounts, you may have previously received householding notification from your broker or bank. If you wish to revoke your decision to household and thereby receive multiple proxy statements and annual reports, please contact your broker directly. If any shareholder residing at the same address would like additional copies of the proxy statement and annual report, please contact your broker or bank, or you may contact the Company by sending a written request to the Secretary, Veeco Instruments Inc., 100 Sunnyside Boulevard, Suite B, Woodbury, NY 11797 or by calling 516-677-0200.

**Q16. When are stockholder proposals for the 2007 Annual Meeting due?**

A. To be considered for inclusion in next year's proxy statement, all stockholder proposals must be submitted *in writing* to the Secretary, Veeco Instruments Inc., 100 Sunnyside Boulevard, Suite B, Woodbury, NY 11797 by December 4, 2006.

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Additionally, Veeco's advance notice bylaw provisions require that any stockholder proposal to be presented from the floor of the 2007 Annual Meeting must be submitted in writing to Secretary, at the above address, by February 17, 2007, and must be accompanied by:

the name, residence and business address of the proposing stockholder;

a representation that the stockholder is a record holder of Veeco stock or holds Veeco stock through a broker and the number of shares held;

a brief description of the business desired to be brought before the annual meeting and the reasons for conducting such business at the annual meeting;

any material interest of the stockholder in such business; and

a representation that the stockholder intends to appear in person or by proxy at the 2007 Annual Meeting to present the proposal.

A proposal may be presented from the floor only after Veeco's Chairman has determined that it is a proper matter for consideration under our bylaws.

**Q17. What is Veeco's process for nominating director candidates?**

A. Veeco's Board of Directors is comprised of nine directors divided into three classes of Directors serving staggered three-year terms. One-third of Veeco's directors are elected each year by its stockholders at the annual meeting of stockholders. The Board of Directors is responsible for filling vacancies on the Board at any time during the year and for nominating director nominees to stand for election at the annual meeting of stockholders. The Nominating and Governance Committee of the Board of Directors reviews all potential director candidates, and recommends potential director candidates to the full Board. Director candidates may be identified by current directors of the Company, as well as by stockholders. The Nominating and Governance Committee is comprised entirely of independent directors, as defined by Nasdaq. In evaluating candidates, the Nominating and Governance Committee will consider the criteria and qualifications set forth in the committee's charter, which qualifications include personal integrity and honesty, sound business judgment, independence, background and business experience, willingness and capability to actively participate in Board and committee activities and potential conflicts of interest, as well as the factors described under "Director Qualification Standards" in Veeco's Corporate Governance Guidelines. In any particular situation, the 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. The evaluation process for candidates recommended by stockholders is the same as for candidates from any other source. See the answer to Question 18 below regarding the process for stockholder nominations of director candidates.

**Q18. Can a stockholder nominate someone to be a director of Veeco?**

A. As a stockholder, you may recommend any person as a nominee for director of Veeco for consideration by the Nominating and Governance Committee by submitting the name and supporting information in writing to the Nominating and Governance Committee of the Board of Directors, c/o Secretary, Veeco Instruments Inc., 100 Sunnyside Boulevard, Suite B, Woodbury, NY 11797. The recommending stockholder must meet the eligibility requirements for submitting a stockholder proposal for inclusion in that proxy statement, a written recommendation must be received by Veeco by December 4, 2006 and the written recommendation must contain the following:

The candidate's name, age, address, principal occupation or employment, the number of shares of Common Stock such candidate beneficially owns, a brief description of any direct or indirect relationships with the Company, and the information that would be required in a proxy statement soliciting proxies for the election of the candidate as a director;

A signed consent of the nominee to cooperate with reasonable background checks, requests for information and personal interviews and to serve as a director, if elected; and

A description of all relationships or arrangements between the recommending stockholder and the candidate and any other person or persons (including their names) pursuant to which the recommendation is being made, as well as a list of all other companies that the stockholder has recommended the candidate to for election as a director in that year.



**Q19. How can stockholders communicate with Veeco's Directors?**

A. Stockholders may address communications to one or more members of the Board (other than sales or employment-related communications) by letter addressed to the Secretary, Veeco Instruments Inc., 100 Sunnyside Boulevard, Suite B, Woodbury, NY 11797. The Secretary will forward copies of all letters (other than sales or employment-related communications) to each Board member to whom they are addressed.

**Q20. How much will this proxy solicitation cost?**

A. Georgeson Shareholder Communications Inc. was hired by Veeco to assist in the distribution of proxy materials and the solicitation of votes for a fee of \$5,500, plus reimbursement of out-of-pocket expenses. The expense of soliciting proxies will be borne by Veeco. In addition, Veeco may reimburse brokerage houses and other custodians, nominees and fiduciaries for their reasonable out-of-pocket expenses for forwarding proxy and solicitation materials to stockholders. Georgeson may contact stockholders by mail, telephone, fax and personal interviews. Veeco has agreed to indemnify Georgeson against certain liabilities and expenses in connection with such solicitation, including liabilities under the federal securities laws. Some personal solicitation also may be made by directors, officers and employees of Veeco without special compensation, other than reimbursement for expenses.

**Q21. Who is soliciting my vote?**

A. Your vote is being solicited by the Board of Directors of Veeco Instruments Inc. for the 2006 Annual Meeting of Stockholders to be held on Friday, May 5, 2006 at 9:30 a.m.

## CORPORATE GOVERNANCE

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 periodically review and update, as appropriate, Veeco's corporate governance policies and practices. In doing so, the Board and management review published guidelines and recommendations of institutional stockholder organizations and current best practices of similarly situated public companies. The Board and management also regularly evaluate and, when appropriate, revise Veeco's corporate governance policies and practices in accordance with the requirements of the Sarbanes-Oxley Act of 2002 and the rules and listing standards issued by the Securities and Exchange Commission (SEC) and The Nasdaq Stock Market, Inc. (Nasdaq).

### Corporate 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 Nominating and Governance Committee from time to time. The Corporate Governance Guidelines relate to director qualifications, conflicts of interest, succession planning and other governance matters.

*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.

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

*Board Committee Charters* - Each of Veeco's Audit, Compensation, and Nominating and Governance Committee has a written charter adopted by Veeco's Board of Directors that establish 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](http://www.veeco.com)) via the Investors page.

### Independence of the Board of Directors

Veeco's Corporate Governance Guidelines provide that at least a majority of the Board of Directors are 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 directors within the meaning of the applicable Nasdaq listing standards, except Mr. Braun, the Company's Chairman and Chief Executive Officer.

*Independence of Committee Members.* All members of each of Veeco's three committees are required to be and are independent.

*Compensation Committee Interlocks and Insider Participation.* During 2005, none of Veeco's executive officers served on the board of directors of any entity whose directors or officers serve on Veeco's Compensation Committee or Board of Directors. No current or past executive officers of Veeco serve on our Compensation Committee. During 2005, the members of our Compensation Committee were Messrs. D'Amore, Low (Chairman) and McDaniel.

*Board Access to Independent Advisors.* The Board members have full and free access to officers and employees of Veeco and are free to retain independent legal, financial or other advisors as the Board or a Committee deem 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. Upon such submission, the Board of Directors determines whether to accept or reject the resignation.

#### **Board Meetings and Committees**

During 2005, Veeco's Board of Directors held ten meetings. Each current Director attended at least 75% of the meetings of the Board of Directors and Board committees on which such Director served during 2005. It is the policy of the Board to hold executive sessions of the independent directors meeting without management at every regular quarterly board meeting and as requested by a director. Mr. Pfister, who has been designated as Lead Director, presides over these executive sessions. All members of the Board are welcome to attend the Annual Meeting of Stockholders. In 2005, Mr. Braun was the only director who attended the Annual Meeting of Stockholders. The Board has established an Audit Committee, a Compensation Committee and a Nominating and Governance Committee.

*Audit Committee.* The Audit Committee reviews the scope and results of the audit and other services provided by Veeco's independent registered public accounting firm. The Audit Committee currently consists of Messrs. Elftmann, Fridrich, Pfister (Chairman) and Simone. The Board has determined that all members of the Audit Committee are financially literate as that term is currently defined by Nasdaq and by applicable SEC rules. The Board of Directors has determined that each of Messrs. Elftmann, Pfister and Simone may be considered an audit committee financial expert as defined by applicable SEC rules. During 2005, the Audit Committee met eleven times.

*Compensation Committee.* The Compensation Committee sets the compensation levels of senior management and administers Veeco's stock incentive plans and employee stock purchase plan. All members of the Compensation Committee are (x) non-employee directors (within the meaning of Rule 16b-3 of the Securities Exchange Act of 1934, as amended (the Exchange Act)), and (y) outside directors (within the meaning of Section 162(m) of the Internal Revenue Code of 1986, as amended (the Code)). None of the members of the Compensation Committee have interlocking relationships as defined by the SEC. The Compensation Committee currently consists of Messrs. D'Amore, Low (Chairman) and McDaniel. During 2005, the Compensation Committee met seven times.

*Nominating and Governance Committee.* The Company's Nominating and 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 of Directors with respect thereto. The Nominating and Governance Committee currently consists of Messrs. Kingsley (Chairman), Low and McDaniel. The Nominating and Governance Committee met once during 2005 and has held two meetings to date in 2006.



**Compensation of Directors**

Members of the Board of Directors who are not employees of Veeco receive a retainer of \$5,000 per quarter, plus additional retainers of \$1,250 per quarter for the chairman of the Compensation Committee and the chairman of the Nominating and Governance Committee, \$3,000 per quarter for the chairman of the Audit Committee and \$2,500 per quarter for the Lead Director. In addition, non-employee Directors receive a fee of \$2,000 for attending each board, committee or stockholder meeting held in person and \$1,000 for attending each board or committee meeting held by conference call. Pursuant to the Company's 2000 Stock Incentive Plan, during 2005 each non-employee Director received an automatic annual grant of 10,000 stock options with an exercise price of \$15.08 per share (the fair market value of a share of Common Stock on the date of grant). These options were fully exercisable on the date of grant. Effective January 1, 2006, the 2000 Stock Incentive Plan was amended to provide that the automatic annual grant to each non-employee director would be 5,000 shares of restricted stock (rather than 10,000 stock options) and the restrictions on these shares lapse on the first anniversary of the date of grant. Directors who are employees, such as Mr. Braun, do not receive compensation for serving as Directors or for attending Board of Directors or committee meetings.

#### **Certain Relationships and Related Transactions**

Prior to joining the Company's Board of Directors in July 2004, Mr. Simone acted as a consultant to Veeco from March 2003 to June 2004. He provided services relating to market analysis, evaluation of new business opportunities, due diligence and certain other matters. For such services, he was paid \$45,000 in 2003 and \$30,000 in 2004.

Mr. Elftmann is President and owns fifty percent of Custom Fab Solutions, LLC, a supplier to semiconductor capital equipment manufacturers. In 2004 and 2005, Veeco's St. Paul operation paid Custom Fab Solutions \$1,095 and \$3,661, respectively, for finishing services.

**PROPOSAL 1****ELECTION OF DIRECTORS**

Veeco's Certificate of Incorporation provides for a Board of Directors elected by Stockholders which is divided into three classes of Directors serving staggered terms. Currently, the Board of Directors is comprised of nine members, consisting of three Class I Directors, three Class II Directors and three Class III Directors. Each of the three Class III Directors is up for re-election this year.

Based on the recommendation of the Nominating and Governance Committee, the Board of Directors has nominated the following Directors for re-election, each of whom is currently a Class III Director:

<b>Name</b>	<b>Nominated for Re-Election to:</b>	<b>For a Term Expiring at the Annual Meeting of Stockholders in:</b>
Edward H. Braun	Class III	2009
Richard A. D'Amore	Class III	2009
Douglas A. Kingsley	Class III	2009

The following Directors will continue in their current positions for the term specified:

<b>Name</b>	<b>Continuing in:</b>	<b>Term Expires at the Annual Meeting of Stockholders in:</b>
Heinz K. Fridrich	Class I	2007
Roger D. McDaniel	Class I	2007
Irwin H. Pfister	Class I	2007
Joel A. Elftmann	Class II	2008
Paul R. Low	Class II	2008
Peter J. Simone	Class II	2008

Management does not contemplate that any of the nominees for Director will be unable to serve, but, if such a situation should arise, it is the intention of the persons named in the accompanying proxy to vote for the election of such other person or persons as the remaining members of the Board of Directors may recommend.

**The Board of Directors recommends a vote FOR approval of the Director nominees named above.**

## MEMBERS OF THE BOARD OF DIRECTORS

The Directors of Veeco, and their ages and committee memberships as of March 9, 2006, are:

Name	Age	Director Since	Audit	Committee Membership	
				Compensation	Nominating and Governance
Edward H. Braun	66	1990			
Richard A. D Amore	52	1990		X	
Joel A. Elftmann	66	1994	X		
Heinz K. Fridrich	73	1998	X		
Douglas A. Kingsley	44	2000			Chair
Paul R. Low	72	1994		Chair	X
Roger D. McDaniel	67	1998		X	X
Irwin H. Pfister (A)	61	1998	Chair		
Peter J. Simone	58	2004	X		

(A) Mr. Pfister also serves as Lead Director.

*Edward H. Braun* has been Chairman and Chief Executive Officer of Veeco since January 1990, and was also President of Veeco from January 1990 to May 2000 and from October 2000 to March 2003. Prior to 1990, Mr. Braun served as Executive Vice President and Chief Operating Officer of Veeco's predecessor. Mr. Braun joined the predecessor in 1966 and held numerous positions with the predecessor, including Director of Marketing, General Manager and Chief Operating Officer. Mr. Braun is a Director Emeritus of Semiconductor Equipment and Materials International, a trade association for suppliers to the semiconductor industry ( SEMI ), of which he was Chairman of the Board in 1993, a member of the Executive Advisory Council of the International Disk Drive Equipment and Materials Association ( IDEMA ), and a director of Cymer, Inc., a supplier of excimer laser light sources used in deep ultra-violet photolithography systems.

*Richard A. D Amore* has been a General Partner of North Bridge Venture Partners since 1994. In addition to Veeco, Mr. D Amore is a director of Phase Forward Incorporated and Solectron Corporation.

*Joel A. Elftmann* is President and a Director of Custom Fab Solutions LLC, a supplier to semiconductor capital equipment manufacturers. Mr. Elftmann was a co-founder of FSI International Inc. and served as its Chairman and Chief Executive Officer from May 1991 through December 1999, and thereafter served as its Chairman until January 2002. Mr. Elftmann was a co-founder of Metron Technology, N.V. ( Metron ), a distributor of semiconductor capital equipment, and served as Chairman and a Supervisory Director of Metron through December 2004 and as a director of Nortem, a company liquidated following the asset sale of Metron. He currently serves as a director of Community Bank of Chaska and is also a Director Emeritus and former Chairman of the Board of Directors of SEMI.

*Heinz K. Fridrich* is an Industry Professor Emeritus of the University of Florida. He joined the University of Florida in 1993 after 43 years with IBM, including serving as Vice President and General Manager of IBM's largest development and manufacturing site for semiconductors and electronic packaging, and most recently as IBM's Vice President responsible for worldwide manufacturing and quality. He is also a director of CH Energy Group, Inc. and Solectron Corporation.

*Douglas A. Kingsley* is a Special Partner of Advent International Corporation, a private equity firm, where he has been employed since 1990. From 1985 through 1988, Mr. Kingsley was a sales engineer for Teradyne, Inc., a manufacturer of automatic test equipment for the electronics industry. He is also a member of the Board of Overseers of the Boston Symphony Orchestra.

*Paul R. Low* has been President and Chief Executive Officer of PRL Associates, a technology consulting firm, since founding the firm in 1992. Previously, Dr. Low was Vice President-General Manager, Technology Products for IBM from 1989 through 1992 and a member of IBM's Management Board from 1990 to 1992. Dr. Low is also a director of Applied Materials, Inc. and Solectron Corporation.

*Roger D. McDaniel*, currently retired, was President and Chief Executive Officer of IPEC, Inc., which manufactured chemical-mechanical planarization (CMP) equipment for the semiconductor industry, from 1997 to April 1999. Through August 1996, Mr. McDaniel was Chief Executive Officer of MEMC Electronic Materials, Inc., a producer of silicon wafers. Mr. McDaniel is a past Chairman of SEMI and a director of Entegris, Inc.

*Irwin H. Pfister* is a private investor and currently serves as an Operating Partner with Baird Capital Partners. Prior to his retirement from Schlumberger in 2005, Mr. Pfister was Executive Vice President of Schlumberger Ltd. and Chief Executive Officer of SchlumbergerSema, a leading information technology services provider. He joined Schlumberger in May 1986 and held several management positions, including Executive Vice President of Schlumberger Test and Transactions. From January 1990 to June 1997, Mr. Pfister was President of the Semiconductor Solutions Group. Mr. Pfister is a past Chairman of SEMI.

*Peter J. Simone* is an independent consultant to several private companies and the investment community. From June 2001 to December 2002, Mr. Simone was Executive Chairman of SpeedFam-IPEC, Inc., a semiconductor equipment company which was acquired by Novellus Systems, Inc. From August 2000 to February 2001, Mr. Simone was President and a director of, and from January 2000 to August 2000 was a consultant to, Active Control eXperts, Inc., a supplier of precision motion control and smart structures technology. From April 1997 to January 2000, Mr. Simone served as President and Chief Executive Officer and a director of Xionics Document Technologies, Inc. Mr. Simone is also a director of Cymer, Inc., Newport Corporation and Sanmina-SCI Corporation.

**PROPOSAL 2****RATIFICATION OF THE APPOINTMENT OF****ERNST & YOUNG LLP AS INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

Based on the recommendation of the Audit Committee, the Board of Directors has appointed the firm of Ernst & Young LLP, independent registered public accounting firm to examine the financial statements of Veeco for the year ending December 31, 2006. Ernst & Young LLP has been employed as the independent registered public accounting firm of Veeco since 1990. Fees for the last two years were as follows:

	Year Ended December 31,	
	2005	2004
Audit Fees	\$ 1,013,100	\$ 1,197,096
Audit-related Fees	38,750	64,300
Tax Fees	135,661	275,221
Total	\$ 1,187,511	\$ 1,536,617

Audit fees consisted of fees for professional services rendered for the audit of the Company's consolidated financial statements, Sarbanes-Oxley Section 404 report and review of the interim consolidated financial statements included in quarterly reports and services that are normally provided by the independent registered public accounting firm in connection with statutory and regulatory filings or engagements. Audit-related fees consisted of fees for accounting consultations in connection with Section 404 of the Sarbanes-Oxley Act of 2002 and employee benefit plan audits. Tax fees consisted of fees for tax planning and advice related to international and transfer pricing tax issues, mergers and acquisitions. The Company did not engage Ernst & Young LLP to perform any work related to financial information systems design or implementation services during 2005 or 2004.

**Audit Committee Pre-approval of Audit and Permissible Non-audit Services of Independent Registered Public Accounting Firm**

The Audit Committee pre-approves all audit and permissible non-audit services provided by the independent registered public accounting firm. The services include audit services, audit-related services, and tax services and may include, to a very limited extent, specifically designated non-audit services which, in the opinion of the Audit Committee, will not impair the independence of the independent registered public accounting firm. Unless the specific service has been previously pre-approved with respect to that year, the Audit Committee must approve the permitted service before the independent registered public accounting firm is engaged to perform it. The Audit Committee has delegated to the Chairman of the Audit Committee authority to approve permitted services provided that the Chairman reports any decisions to the Audit Committee at its next scheduled meeting. The independent registered public accounting firm and management are required to periodically report to the Audit Committee regarding the extent of services provided by the independent registered public accounting firm in accordance with this pre-approval, and the fees for the services performed to date. In addition, the Audit Committee may, as required, also pre-approve particular services on a case-by-case basis.

All of the Ernst & Young LLP fees for 2005 and 2004 shown above were pre-approved by the Audit Committee.

### Independence Assessment by Audit Committee

The Company's Audit Committee considered and determined that the provision of the services provided by Ernst & Young LLP as set forth herein is compatible with maintaining Ernst & Young LLP's independence.

Representatives of Ernst & Young LLP will be present at the Annual Meeting and may make a statement if they so desire. They will also be available to respond to appropriate questions.

Stockholders are asked to ratify the action of the Board of Directors in making this appointment. If this appointment is not ratified by the Stockholders, the selection of another independent registered public accounting firm will be considered by the Audit Committee for recommendation to the Board of Directors.

**The Board of Directors recommends a vote FOR ratification of the appointment of Ernst & Young LLP as the Company's independent registered public accounting firm for the year ending December 31, 2006.**

### AUDIT COMMITTEE REPORT

The Audit Committee is responsible for providing independent objective oversight of the Company's auditing, accounting, financial reporting process, its system of internal controls, and legal and ethical compliance on behalf of the Board of Directors. The Committee operates under a charter adopted by the Board, a copy of which is available on Veeco's website ([www.veeco.com](http://www.veeco.com)). Management has the primary responsibility for the financial statements and the reporting process including the system of internal control over financial reporting. In fulfilling its oversight responsibilities, the Audit Committee reviewed and discussed the audited financial statements included in the Annual Report on Form 10-K for the fiscal year ended December 31, 2005 (the Annual Report on Form 10-K) and the quarterly financial statements during 2005 with management, including the specific disclosures in the section titled Management Discussion and Analysis of Financial Condition and Results of Operations. The review with management included a discussion of the quality, not just the acceptability, of the accounting principles, the reasonableness of significant judgments and the clarity of disclosures in the financial statements.

The Committee reviewed with the independent registered public accounting firm, who is responsible for expressing an opinion on the conformity of those audited financial statements with US generally accepted accounting principles, their judgments as to the quality, not just the acceptability, of the Company's accounting principles and such other matters as are required to be discussed with the Audit Committee by SAS 61, as amended by SAS 90, *Communication with Audit Committees* and PCAOB Auditing Standard No. 2, *An Audit of Internal Control Over Financial Reporting Performed in Conjunction with an Audit of Financial Statements*. In addition, the Audit Committee has discussed with the independent registered public accounting firm the auditors' independence from management and the Company including the matters in the written disclosures and the letter from the independent auditors required by the Independence Standards Board No. 1, *Independence Discussions with Audit Committees*, and the matters required to be discussed by SAS 90 and considered the compatibility of non-audit services with the auditors' independence and satisfied itself as to the independence of the independent registered public accounting firm.

During 2005, management evaluated the Company's system of internal control over financial reporting in accordance with the requirements set forth in Section 404 of the Sarbanes-Oxley Act of 2002 and related regulations. The Audit Committee was kept apprised of the progress of the

evaluation and

provided oversight and advice to management during the process. In connection with this oversight, the Committee received periodic updates provided by management and the independent registered public accounting firm at each regularly scheduled Audit Committee meeting. At the conclusion of the process, management provided the Audit Committee with a report on the effectiveness of the Company's internal control over financial reporting. The Audit Committee also reviewed the report of management contained in the Company's Annual Report on Form 10-K filed with the SEC, as well as the Reports of Independent Registered Public Accounting Firm (included in the Company's Annual Report on Form 10-K). These reports related to its audit of (i) the consolidated financial statements, (ii) management's assessment of the effectiveness of internal control over financial reporting and (iii) the effectiveness of internal control over financial reporting. The Committee continues to oversee the Company's efforts related to its internal control over financial reporting and management's preparations for the evaluation in fiscal 2006.

The Audit Committee discussed with the Company's internal auditors and independent registered public accounting firm the overall scope and plans for their respective audits. The Audit Committee meets with the internal auditors and independent registered public accounting firm with and without management present, to discuss the results of their examinations, their evaluations of the Company's internal control over financial reporting, and the overall quality of the Company's financial reporting. The Committee held eleven meetings during 2005.

In reliance on the reviews and discussions referred to above, the Audit Committee recommended to the Board of Directors (and the Board approved) that the audited financial statements be included in the Annual Report on Form 10-K for filing with the SEC. The Audit Committee and the Board have also recommended, subject to stockholder approval, the selection of the Company's independent registered public accounting firm.

Joel A. Elftmann

Heinz K. Fridrich

Irwin H. Pfister (Chairman)

Peter J. Simone

## EXECUTIVE COMPENSATION

## Executive Officers

The executive officers of Veeco, and their ages, as of March 9, 2006, are as follows:

Name	Age	Position
Edward H. Braun	66	Chairman of the Board and Chief Executive Officer
John K. Bulman	59	Executive Vice President, Worldwide Sales and International Operations
Don R. Kania, Ph.D.	51	President and Chief Operating Officer
John P. Kiernan	43	Senior Vice President, Finance, Chief Accounting Officer and Corporate Controller
Robert P. Oates	52	Senior Vice President and General Manager, Process Equipment
John F. Rein, Jr.	59	Executive Vice President, Chief Financial Officer and Secretary
Jeannine P. Sargent	42	Executive Vice President, Metrology and Instrumentation and Corporate Marketing and Business Development

*Edward H. Braun* has been Chairman and Chief Executive Officer of Veeco since January 1990, and was also President of Veeco from January 1990 to May 2000 and from October 2000 to March 2003. Prior to 1990, Mr. Braun served as Executive Vice President and Chief Operating Officer of Veeco's predecessor. Mr. Braun joined the predecessor in 1966 and held numerous positions with the predecessor, including Director of Marketing, General Manager and Chief Operating Officer. Mr. Braun is a Director Emeritus of SEMI, of which he was Chairman of the Board in 1993, a member of the Executive Advisory Council of IDEMA, and a director of Cymer, Inc., a supplier of excimer laser light sources used in deep ultra-violet photolithography systems.

*John K. Bulman* has been Executive Vice President, Worldwide Sales and International Operations since July 2002 and was Senior Vice President, North American Sales from September 2000 to July 2002. From November 1999 to September 2000 he was Vice President, North American Sales. From June 1996 to November 1999, Mr. Bulman was self-employed in a family business. From March 1995 to June 1996, Mr. Bulman was Vice President of Sales and Service at Gasonics International. From September 1989 to March 1995, Mr. Bulman was Vice President of Sales and Service at Genrad, Inc. Mr. Bulman's other experience includes sales management positions at Schlumberger ATE (a division of Schlumberger Ltd.) and Hewlett Packard Company.

*Don R. Kania, Ph.D.* has been President of Veeco since March 2003 and Chief Operating Officer since July 2004. He was President of Veeco's Metrology Group from June 2000 to March 2003 and Vice President, General Manager of the California Metrology Group from May 1999 to June 2000. Prior thereto, he was Chief Technology Officer of Veeco since January 1998. Starting in 1993, Dr. Kania was a senior manager at Lawrence Livermore Laboratory where he directed the Advanced Microtechnology Program in the development of advanced sensors for data storage, extreme ultraviolet lithography for semiconductor manufacturing and several other leading-edge technologies. From 1991 to 1993, Dr. Kania was Research Director at Crystallume, a thin film diamond company. Dr. Kania's other experience includes nine years of research experience at the Department of Energy's Los Alamos and Livermore

Laboratories.

*John P. Kiernan* has been Senior Vice President, Finance, Chief Accounting Officer and Corporate Controller since July 2005. Prior thereto, he was Vice President, Finance and Corporate Controller of Veeco from April 2001 through 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, 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.

*Robert P. Oates* has been Senior Vice President and General Manager, Process Equipment since January 2006. Prior thereto, he was Senior Vice President of Veeco's Data Storage Operations from October 2005 through January 2006, Vice President and General Manager of Veeco's Ion Beam Process Equipment Group from September 2004 through September 2005, Vice President/Treasurer of Veeco from May 2002 to September 2004 and Vice President and General Manager of Veeco's NeXray division from 1995 to May 2002. Mr. Oates held various financial positions with Veeco and Veeco's predecessor company from 1977 to 1995.

*John F. Rein, Jr.* has been Executive Vice President, Chief Financial Officer and Secretary of Veeco since April 2000 and was Treasurer of Veeco from April 2000 to October 2002. Prior thereto, he was Vice President-Finance and Chief Financial Officer of Veeco since December 1993, and became Treasurer and Secretary of Veeco in October 1994. Prior to joining Veeco, Mr. Rein served for eight years as Vice President-Finance for Axsys Technologies, Inc. From 1979 to 1986, Mr. Rein was Treasurer of Industrial General Corporation. Prior to that, he was on the audit staff of Ernst & Young LLP.

*Jeannine P. Sargent* has been Executive Vice President of Metrology and Instrumentation and Corporate Marketing and Business Development since October 2005. Prior thereto, she was Senior Vice President of Marketing and Business Development from June 2004 to October 2005. Prior to joining Veeco, Ms. Sargent was the interim Chief Executive Officer and a consultant to Teravicta Technologies, a producer of microelectronic RF components, from July 2003 to December 2003. From August 1997 to November 2002, Ms. Sargent was the Chief Executive Officer and President of Voyan Technology, a software company serving the semiconductor industry. From February 1996 to August 1997, Ms. Sargent held senior level marketing posts at Gasonics International and from August 1992 to January 1996 she held similar posts at Tencor Instruments, the predecessor to KLA-Tencor Corporation.

### Summary Compensation Table

The following table sets forth a summary of annual and long-term compensation awarded to, earned by, or paid to the Chief Executive Officer of Veeco and each of the next five most highly compensated executive officers (as defined in Rule 3b-7 under the Exchange Act) of Veeco (the Named Officers ):

Name and Principal Position	Year	Annual Compensation			Long Term Compensation Awards		All Other Compensation (\$)(3)
		Salary	Bonus (1)	Other Annual Compensation	Restricted Stock Awards (\$)(2)	Shares Underlying Options	
Edward H. Braun Chairman and C.E.O.	2005	\$ 650,000	\$ 347,893	\$ 18,000(4)		100,000	\$ 5,548
	2004	650,000		18,000(4)		200,000	4,084
	2003	636,538		18,000(4)		140,000	2,073
Don R. Kania, Ph.D. President and C.O.O.	2005	387,981	147,520	8,400(4)		65,000	3,052
	2004	375,000		204,337(8)		130,000	3,052
	2003	364,615		166,281(9)		120,000	857
John K. Bulman E.V.P., Worldwide Sales/International Operations	2005	289,960	188,358(5)	8,400(4)		20,000	3,572
	2004	283,039	182,752(6)	8,400(4)		40,000	3,532
	2003	268,269	150,968(7)	8,400(4)		24,000	1,760
John F. Rein, Jr. E.V.P., C.F.O. and Secretary	2005	351,769	133,752	8,400(4)		40,000	3,532
	2004	340,000		8,400(4)		70,000	6,130
	2003	331,385		8,400(4)		50,000	2,821
Jeannine P. Sargent E.V.P., Metrology and Instrumentation (10)	2005	286,058	173,645	8,400(4)	\$ 395,500	30,000	2,740
	2004	131,423		4,900(4)		70,000	2,627
Robert P. Oates S.V.P., Process Equipment	2005	252,038	207,885	8,400(4)	316,400	30,000	3,046
	2004	197,308		8,400(4)		45,000	3,666
	2003	159,866		8,400(4)		10,000	3,572

(1) Bonuses listed for a particular year represent bonuses paid with respect to such year even though all or part of such bonuses may have been paid during the first quarter of the subsequent year.

(2) Under the terms of the restricted stock awards, one third of the shares vest on each of the first, second and third anniversaries of the date of grant. Holders of restricted stock are entitled to dividends to the same extent as holders of unrestricted stock. As of December 31, 2005, Ms. Sargent held an aggregate of 25,000 shares of restricted stock with a market value on such date of \$433,250 and Mr. Oates held an aggregate of 20,000 shares of restricted stock with a market value on such date of \$346,600.

(3) Reflects payments by Veeco of premiums for group term life insurance and matching contributions by Veeco under Veeco's 401(k) Plan and, in the case of Messrs. Rein and Oates, payments by Veeco of premiums for supplemental long-term disability insurance for 2003 and 2004.

(4) Reflects car allowance.

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- (5) Includes commissions of \$89,675 paid to Mr. Bulman during 2005, as well as a bonus of \$98,683 with respect to 2005 which was paid during 2006.
- (6) Includes commissions of \$96,502 paid to Mr. Bulman during 2004, as well as a bonus of \$86,250 with respect to 2004 which was paid during 2005.
- (7) Includes commissions of \$93,368 paid to Mr. Bulman during 2003, as well as a bonus of \$57,600 with respect to 2003 which was paid in 2004.

(8) Includes an \$8,400 car allowance and a \$195,937 relocation allowance paid to Dr. Kania in 2004. The relocation allowance was associated with Dr. Kania's relocation to the Woodbury, New York area in connection with his appointment as President of the Company.

(9) Includes an \$8,400 car allowance, a \$54,257 housing allowance and a \$103,624 relocation allowance paid to Dr. Kania in 2003. The relocation allowance was associated with Dr. Kania's relocation to the Woodbury, New York area in connection with his appointment as President of the Company.

(10) Ms. Sargent joined Veeco in June 2004.

**Option Grants in 2005**

The following table sets forth certain information concerning individual grants of stock options made during 2005 to the Named Officers. Also reported are potential realizable values of each such stock option at assumed annual rates of stock price appreciation for the term of the option representing the product of (a) the difference between: (i) the product of the closing price per share of Common Stock as reported by the Nasdaq on the date of the grant (\$16.65 on June 17, 2005) and the sum of one plus the adjusted stock price appreciation rate (5% and 10%) compounded annually over the term of the option (7 years) and (ii) the exercise price of the option; and (b) the number of shares of Common Stock underlying the option grant at December 31, 2005.

Name	Number of Shares Underlying Options Granted (1)	% of Total Options Granted to Employees in Fiscal Year (2)	Exercise Price Per Share (\$) (3)	Expiration Date (4)	Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term (\$)	
					5%	10%
Edward H. Braun	100,000	9.3%	\$ 16.56	6/16/2012	\$ 674,158	\$ 1,571,076
Don R. Kania, Ph.D.	65,000	6.0	\$ 16.56	6/16/2012	438,203	1,021,199
John K. Bulman	20,000	1.9	\$ 16.56	6/16/2012	134,832	314,215
John F. Rein, Jr.	40,000	3.7	\$ 16.56	6/16/2012	269,663	628,430
Jeannine P. Sargent	30,000	2.8	\$ 16.56	6/16/2012	202,247	471,323
Robert P. Oates	30,000	2.8	\$ 16.56	6/16/2012	202,247	471,323
\$160 million Loan facility	<i>Fortaleza Knutsen &amp; Recife Knutsen</i>		129,350	132,425		
\$19 million Loan facility	<i>Fortaleza Knutsen &amp; Recife Knutsen</i>					
\$120 million Loan facility	<i>Bodil Knutsen</i>		65,231	67,615		
\$85 million Loan facility	<i>Windsor Knutsen</i>		52,400	52,400		
\$27.3 million	<i>Windsor Knutsen</i>					

(US \$ in thousands) **March 2013**

Loan facility		
\$93 million		
Loan facility <i>Carmen Knutsen</i>	85,250	87,188
Seller s credit	10,612	10,349
Total long-term debt	342,843	349,977
Less current installments	29,494	29,269
Less seller s credit	10,612	10,349
Long-term debt, excluding current installment and seller s credit	302,737	310,359

Our outstanding debt of \$342.8 million as of March 31, 2014 is repayable as follows:

<i>(US \$ in thousands)</i>	
2014 (three months ended)	21,872
2015	74,619
2016	145,802
2017	11,750
2018	70,800
2019-2024	18,000
Total	342,843

As of March 31, 2014 and December 31, 2013, the interest rates on our loan agreements were LIBOR plus a fixed margin ranging from 0.6% to 3.0% except for seller s credit which has a margin of 4.5%.

*Fortaleza and Recife financing.* The \$160 million senior secured loan facility includes two tranches. Each tranche is repayable in quarterly installments over five years with final balloon payments due at maturity in March 2016 and August 2016. The Partnership used \$26.3 million of net proceeds from the IPO to repay borrowings under the \$160 million senior secured facility.

The \$19 million junior secured loan facility was fully repaid by using net proceeds from the IPO.

The existing senior loan facility related to the *Fortaleza Knutsen* and the *Recife Knutsen* was amended to increase borrowing capacity by \$25.4 million in connection of the settlement of acquisition of *Carmen Knutsen*.

The \$160 million senior secured facility bears interest at LIBOR plus a fixed margin of 3.0%.



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The Fortaleza and Recife Facilities are secured by *Fortaleza Knutsen* and *Recife Knutsen*, and the Partnership and KNOT Shuttle Tankers AS are the sole guarantors. The amended Fortaleza and Recife Facilities contain the following financial covenants:

Positive working capital for the borrower;

Minimum liquidity of the Partnership of \$15 million plus increments of \$1 million for each additional vessel acquired by the Partnership above the eighth vessel and \$1.5 million for each owned vessel with less than 12 months remaining tenor on its employment contract;

Minimum book equity ratio for the Partnership of 30%; and

Minimum EBITDA to interest ratio for the Partnership of 2.50; and

Market value of the Fortaleza Knutsen and the Recife Knutsen to be no less than 100% of the outstanding balance under the Fortaleza and Recife Facility.

The Fortaleza and Recife Facility further identifies various events that may trigger mandatory reduction, prepayment, and cancellation of the facility, including total loss or sale of a vessel, and that the facilities will contain customary events of default.

The Borrower and the Partnership are in compliance with all covenants as of March 31, 2014.

*Bodil financing.* The \$120 million secured loan facility includes two tranches. One tranche is repayable in semi-annual installments over five years with final balloon payments due at maturity in February 2016. The second tranche is repayable in semi-annual installments over twelve years assuming the balloon payment of the first tranche is refinanced in 2016. If the balloon payment of the first tranche is not refinanced in 2016, the second tranche becomes repayable with a final balloon payment due at maturity in February 2016. The Partnership used approximately \$52.1 million of net proceeds from the IPO to repay borrowings under the Bodil Facility. The amended Bodil Facility ( Bodil Facility ) is a \$50.0 million term loan facility and a \$20.0 million revolving credit facility (the Revolving Credit Facility ). The Revolving Credit Facility is available until August 15, 2016 and has a margin over LIBOR of 3% and a commitment fee equal to 40% of the Margin Revolving Credit facility calculated on the daily undrawn portion of the Revolving Credit Facility (40% of 3.0% which is 1.2% of the undrawn facility amount). The Revolving Credit Facility was fully drawn in connection with the financing of the Carmen Knutsen.

The Bodil Facility bears interest at LIBOR plus a margin ranging from 0.6% to 3.0%. In addition to the interest rates, the Borrower shall pay to the Agent (for distribution to GIEK) a guarantee commission of 1.75% per annum of the outstanding amounts under the GIEK Guarantee, payable semi-annually in arrears. GIEK means the Guarantee Institute for Export Credits ( Garanti-Instituttet for Eksportkreditt ), the Norwegian central governmental agency responsible for furnishing guarantees and insurance of export credits.

The *Bodil Knutsen*, assignments of earnings, charterparty contracts and insurance proceeds are pledged as collateral for the Bodil Facility. The Partnership and KNOT Shuttle Tankers AS are the sole guarantors. The amended Bodil

Facility contains the following financial covenants:

Market value of the *Bodil Knutsen* must be no less than 100% of the outstanding balance under the Bodil Facilities for the first four years and 125% for the fifth year;

Positive working capital for the borrower;

Minimum liquidity for the Partnership of \$15 million plus increments of \$1 million for each additional vessel acquired by the Partnership above the eighth vessel and \$1.5 million for each owned vessel with less than 12 months remaining tenor on its employment contract;

Minimum book equity ratio for the Partnership of 30%;

Minimum EBITDA to interest ratio for the Partnership of 2.50.

The Bodil Facilities will identify various events that may trigger mandatory reduction, prepayment, and cancellation of the facility, including total loss or sale of the vessel, and that the facilities will contain customary events of default.

The Borrower and the Partnership are in compliance with all covenants as of March 31, 2014.

*Windsor financing.* The \$85 million secured loan facility, also referred to as the Windsor Purchase Facility is repayable in semi-annual installments over eight years with a final balloon payment due at maturity in May 2015. None of Windsor Purchase facility was repaid in connection with the IPO.

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Under the loan agreement, the borrower pays on a monthly basis into a retention account subsequently used for principal installments; this account is considered restricted cash.

The amended Windsor Purchase Facility bears interest at LIBOR, plus a margin of 2.25%. Before the amendment the interest rate was LIBOR, plus a margin of 0.82%.

The *Windsor Knutsen*, assignments of earnings, charterparty contracts and insurance proceeds are pledged as collateral for the Windsor Purchase Facility. The amended Windsor Purchase Facility contains the following financial covenants:

Market value of the *Windsor Knutsen* may be no less than 110% of the aggregate outstanding balance of the Windsor Purchase Facility and Windsor Conversion Facility; and

The Windsor Purchase Facility contains various events that may trigger mandatory reduction, prepayment, and cancellation of the facility, including total loss or sale of the vessel, and that the facilities will contain customary events of default.

The borrower was in compliance with all covenants as of March 31, 2014

*Carmen financing.* The \$93 million secured loan facility (the *Carmen Facility* ) is repayable in quarterly installments over five years with a final balloon payment due at maturity in January 2018. The \$93 million facility bears interest at LIBOR, plus a margin of 2.5%. The *Carmen Knutsen*, assignments of earnings, charterparty contracts and insurance proceeds are pledged as collateral for the *Carmen Facility*. The Partnership and KNOT Shuttle Tankers AS are the sole guarantors. The *Carmen Facility* contains the following financial covenants:

Market value of the *Carmen Knutsen* to be no less than 100% of the outstanding balance under the *Carmen Facility* for the first four years and 125% for the fifth year;

Positive working capital for the borrower;

Minimum liquidity of the Partnership of \$15 million plus increments of \$1 million for each additional vessel acquired by the Partnership above the eighth vessel and \$1.5 million for each owned vessel with less than 12 months remaining tenor on its employment contract;

Minimum book equity ratio for the Partnership of 30%; and

Minimum EBITDA to interest ratio for the Partnership of 2.50.

The *Carmen Facility* also identifies various events that may trigger mandatory reduction, prepayment, and cancellation of the facility, including total loss or sale of a vessel and customary events of default.

The borrower was in compliance with the financial covenants as of March 31, 2014.

*Seller Loan.* As part of the financing for the purchase of Carmen Knutsen, KNOT provided a Seller's credit in the form of a loan in the amount of \$10.5 million (the "Seller Loan"). The Seller Loan is non-amortizing and matures in five years, August 2018 or earlier if the parties agree. The Seller loan bears interest at LIBOR plus margin of 4.5%. The Partnership is the sole guarantors. The Seller Loan shall constitute senior debt obligation of the borrower and has priority over any shareholder's loan and equity provided by the owner. The Seller Loan contains customary provisions in case of non-payment or the borrower entering bankruptcy proceedings and carries a default interest of 8% per annum plus LIBOR. The Seller Loan was reduced by \$0.1 million as settlement for the working capital in Knutsen Shuttle Tankers 13 AS. Accrued interest on the loan amount accumulates at the end of each consecutive six month period and is capitalized on the loan. As of March 31, 2014, \$0.3 million was accrued interest expenses and was capitalized on the loan.

#### ***Derivative Instruments and Hedging Activities***

As of March 31, 2014, the Partnership has entered into various interest rate swap agreements effective until March, April, May and August, 2018, for a total notional amount of \$250 million to hedge against the interest rate risks of its variable-rate borrowings. Under the terms of the interest rate swap agreements, the Partnership will receive from the counterparty interest on the notional amount based on three-month LIBOR and will pay to the counterparty a fixed rate. For the interest rate swap agreements above, the Partnership will pay to the counterparty a fixed rate ranging from 1.25% to 1.45%.

**Table of Contents*****Contractual Obligations***

The following table summarizes our long-term contractual obligations as of March 31, 2014:

<i>(US \$ in thousands)</i>	<b>Total</b>	<b>Payments Due by Period</b>			
		<b>Less than 1 Year</b>	<b>1-3 Years</b>	<b>4-5 Years</b>	<b>More than 5 Years</b>
Long-term debt obligations (including interest)(1)	380,250	42,215	234,272	86,798	16,965
Total	380,250	42,215	234,272	86,798	16,965

(1) The long-term debt obligations have been calculated assuming interest rates based on the 6-month LIBOR as of March 31, 2014, plus the applicable margin for all periods presented.

**Off-Balance Sheet Arrangements**

Currently, we do not have any off-balance sheet arrangements.

**Critical Accounting Estimates**

The preparation of the unaudited condensed consolidated and combined carve-out interim financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosures about contingent assets and liabilities. We base these estimates and assumptions on historical experience and on various other information and assumptions that we believe to be reasonable. Our critical accounting estimates are important to the portrayal of both our financial condition and results of operations and require us to make subjective or complex assumptions or estimates about matters that are uncertain. For a description of our material accounting policies that involve higher degree of judgment, please read Note 2 Summary of Significant Accounting Policies of our consolidate and combined carve-out financial statement included in our 20-F dated April 14, 2013 filed with the SEC

**Quantitative and Qualitative Disclosures About Market Risk**

We are exposed to various market risks, including interest rate, foreign currency exchange and concentration of credit risks. Historically, we have entered into certain derivative instruments and contracts to maintain the desired level of exposure arising from interest rate and certain foreign exchange risks. Our policy is to economically hedge our exposure to risks, where possible, within boundaries deemed appropriate by management.

***Interest Rate Risks***

A portion of our debt obligations and surplus funds placed with financial institutions are subject to movements in interest rates. It is our policy to obtain the most favorable interest rates available without increasing our foreign currency exposure. In keeping with this, our surplus funds may in the future be placed in fixed deposits with reputable financial institutions which yield better returns than bank deposits. The deposits generally have short-term maturities so as to provide us with the flexibility to meet working capital and capital investments.

We have historically used interest rate swaps to manage our exposure to interest rate risks. Interest rate swaps were used to convert floating rate debt obligations based on LIBOR to a fixed rate in order to achieve an overall desired

position of fixed and floating rate debt. The extent to which interest rate swaps are used is determined by reference to our net debt exposure and our views regarding future interest rates. Our interest rate swaps do not qualify for hedge accounting and movements in their fair values are reflected in the statement of operations under gain/(loss) on derivative financial instruments. Interest rate swap agreements that have a positive fair value are recorded as Derivative assets, while swaps with a negative fair value are recorded as Derivative liabilities.

As of March 31, 2014, the Partnership's net exposure to floating interest rate fluctuations on its outstanding debt was approximately \$66.0 million, based on total net interest bearing debt of approximately \$342.8 million less the notional amount of our floating to fixed interest rate swaps of \$250.0 million, and less cash and cash equivalents of \$26.8 million.

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A 1% change in short-term interest rates would result in an increase or decrease to our interest expense of approximately \$0.7 million on an annual basis as of March 31, 2014.

***Foreign Currency Fluctuation Risks***

We and our subsidiaries utilize the U.S. Dollar as our functional and reporting currency because all of our revenues and the majority of our expenditures, including the majority of our investments in vessels and our financing transactions, are denominated in U.S. Dollars. We could, however, earn revenue in other currencies and we currently incur a portion of our expenses in other currencies. Therefore, there is a risk that currency fluctuations could have an adverse effect on the value of our cash flows.

Our foreign currency risk arises from:

the measurement of monetary assets and liabilities denominated in foreign currencies converted to U.S. Dollars, with the resulting gain or loss recorded as Foreign exchange gain/(loss); and

the impact of fluctuations in exchange rates on the reported amounts of our revenues, if any, and expenses that are denominated in foreign currencies.

As of March 31, 2014, we had no outstanding foreign exchange forward contracts.

***Concentration of Credit Risk***

The market for our services is the offshore oil transportation industry, and the customers consist primarily of major oil and gas companies, independent oil and gas producers and government-owned oil companies. As of March 31, 2014 and December 31, 2013, four customers accounted for substantially all of our revenues. Ongoing credit evaluations of our customers are performed and generally do not require collateral in our business agreements. Typically, under our time charters and bareboat charters, the customer pays for the month's charter the first day of each month, which reduces our level of credit risk. Provisions for potential credit losses are maintained when necessary.

We have bank deposits that expose us to credit risk arising from possible default by the counterparty. We manage the risk by using credit-worthy financial institutions.

***Retained Risk***

For a description of our insurance coverage, including the risks retained by us related to our insurance policies, please see Insurance above.

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**FORWARD-LOOKING STATEMENTS**

This Report on Form 6-K contains certain forward-looking statements concerning future events and KNOT Offshore Partners LP's (KNOT Offshore Partners) operations, performance and financial condition. Forward-looking statements include, without limitation, any statement that may predict, forecast, indicate or imply future results, performance or achievements, and may contain the words believe, anticipate, expect, estimate, project, will be, will continue, likely result, plan, intend or words or phrases of similar meanings. These statements involve known and unknown risks and are based upon a number of assumptions and estimates that are inherently subject to significant uncertainties and contingencies, many of which are beyond KNOT Offshore Partners' control. Actual results may differ materially from those expressed or implied by such forward-looking statements. Important factors that could cause actual results to differ materially include, but are not limited to:

statements about market trends in the shuttle tanker or general tanker industries, including charter rates, factors affecting supply and demand, and opportunities for the profitable operations of shuttle tankers;

statements about KNOT's and KNOT Offshore Partners' ability to build and retrofit shuttle tankers and the timing of the delivery and acceptance of any such retrofitted vessels by their respective charterers;

KNOT Offshore Partners' ability to increase distributions and the amount of any such increase;

KNOT Offshore Partners' ability to integrate and realize the expected benefits from acquisitions;

KNOT Offshore Partners' anticipated growth strategies;

the effect of a worldwide or regional economic slowdown;

turmoil in the global financial markets;

fluctuations in currencies and interest rates;

general market conditions, including fluctuations in hire rates and vessel values;

changes in KNOT Offshore Partners' operating expenses, including drydocking and insurance costs and bunker prices;

forecasts of KNOT Offshore Partners ability to make cash distributions on the units or any increases in cash distributions;

KNOT Offshore Partners future financial condition or results of operations and future revenues and expenses;

the repayment of debt and settling of any interest rate swaps;

KNOT Offshore Partners ability to make additional borrowings and to access debt and equity markets;

planned capital expenditures and availability of capital resources to fund capital expenditures;

KNOT Offshore Partners ability to maintain long-term relationships with major users of shuttle tonnage;

KNOT Offshore Partners ability to leverage KNOT's relationships and reputation in the shipping industry;

KNOT Offshore Partners ability to purchase vessels from KNOT in the future;

KNOT Offshore Partners continued ability to enter into long-term time charters, which we define as charters of five years or more;

KNOT Offshore Partners ability to maximize the use of its vessels, including the re-deployment or disposition of vessels no longer under long-term time charter;

timely purchases and deliveries of newbuilds;

future purchase prices of newbuild and secondhand vessels;

KNOT Offshore Partners ability to compete successfully for future chartering and newbuild opportunities;

acceptance of a vessel by its charterer;

termination dates and extensions of charters;

the expected cost of, and KNOT Offshore Partners ability to, comply with governmental regulations, maritime self-regulatory organization standards, as well as standard regulations

imposed by its charterers applicable to KNOT Offshore Partners' business;

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availability of skilled labor, vessel crews and management;

KNOT Offshore Partners' general and administrative expenses and its fees and expenses payable under the fleet management agreements and the management and administrative services agreement;

the anticipated taxation of KNOT Offshore Partners and distributions to KNOT Offshore Partners unitholders;

estimated future maintenance and replacement capital expenditures;

KNOT Offshore Partners' ability to retain key employees;

customers' increasing emphasis on environmental and safety concerns;

potential liability from any pending or future litigation;

potential disruption of shipping routes due to accidents, political events, piracy or acts by terrorists;

future sales of KNOT Offshore Partners' securities in the public market;

KNOT Offshore Partners' business strategy and other plans and objectives for future operations; and

other factors listed from time to time in the reports and other documents that KNOT Offshore Partners files with the SEC.

All forward-looking statements included in this Report on Form 6-K are made only as of the date of this report. New factors emerge from time to time, and it is not possible for KNOT Offshore Partners to predict all of these factors. Further, KNOT Offshore Partners cannot assess the impact of each such factor on its business or the extent to which any factor, or combination of factors, may cause actual results to be materially different from those contained in any forward-looking statement. KNOT Offshore Partners does not intend to release publicly any updates or revisions to any forward-looking statements contained herein to reflect any change in KNOT Offshore Partners' expectations with respect thereto or any change in events, conditions or circumstances on which any such statement is based.

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**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

**KNOT OFFSHORE PARTNERS LP**

Date: June 3, 2014

By: /s/ ARILD VIK

Name: Arild Vik

Title: Chief Executive Officer and Chief Financial  
Officer