

NANOMETRICS INC  
Form DEF 14A  
April 04, 2017

SCHEDULE 14A INFORMATION

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  
Definitive Additional Materials  
Soliciting Material Pursuant to §240.14a-12  
NANOMETRICS INCORPORATED

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement if Other Than the Registrant)

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No fee required.

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1. Title of each class of securities to which transaction applies:

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7. Form, Schedule or Registration Statement No.:

8. Filing Party:

9. Date Filed:

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NANOMETRICS INCORPORATED

1550 Buckeye Drive

Milpitas, California 95035

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

To Be Held On May 23, 2017

Dear Stockholder:

You are cordially invited to attend the Annual Meeting of Stockholders of NANOMETRICS INCORPORATED, a Delaware corporation. The meeting will be held on Tuesday, May 23, 2017, at 9:00 a.m. local time, at our Corporate Headquarters located at 1550 Buckeye Drive, Milpitas, California 95035 for the following purposes:

1. To elect the Board's seven nominees for director to serve until the next annual meeting and until their successors are duly elected and qualified.
2. To approve, on an advisory basis, the compensation of Nanometrics' named executive officers, as disclosed in this proxy statement.
3. To approve, on an advisory basis, the frequency of advisory votes on executive compensation.
4. To approve the Nanometrics Incorporated 2017 Executive Performance Bonus Plan.
5. To approve the Nanometrics Incorporated Amended and Restated 2005 Equity Incentive Plan.
6. To ratify the appointment by the Audit Committee of the Board of Directors of PricewaterhouseCoopers LLP as the independent registered public accounting firm of Nanometrics for its fiscal year ending December 30, 2017.
7. To conduct any other business properly brought before the meeting.

These items of business are more fully described in the Proxy Statement accompanying this Notice.

The record date for the Annual Meeting is March 27, 2017. Only stockholders of record at the close of business on that date may vote at the meeting or any adjournment thereof.

Important Notice  
Regarding the  
Availability of Proxy  
Materials for the  
Stockholders'  
Meeting to Be Held  
on  
May 23, 2017, at  
1550 Buckeye Drive,  
Milpitas, California  
95035.

The proxy statement  
and annual report to  
stockholders  
are available at  
[www.proxyvote.com](http://www.proxyvote.com)

By Order  
of the  
Board of  
Directors

/s/  
Bruce  
C.  
Rhine  
Bruce C.  
Rhine  
Chairman  
of the  
Board of  
Directors

Milpitas, California  
April 3, 2017

You are cordially invited to attend the meeting in person. Whether or not you expect to attend the meeting, please complete, date, sign and return the proxy card that may be mailed to you, or vote over the telephone or the Internet as instructed in these materials, as promptly as possible in order to ensure your representation at the meeting. Even if you have voted by proxy, you may still vote in person if you attend the meeting. Please note, however, that if your shares are held of record by a broker, bank or other nominee and you wish to vote at the meeting, you must obtain a proxy issued in your name from that record holder.



NANOMETRICS INCORPORATED

2017 ANNUAL MEETING OF STOCKHOLDERS

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NANOMETRICS INCORPORATED

1550 Buckeye Drive

Milpitas, California 95035

PROXY STATEMENT FOR THE 2017 ANNUAL MEETING OF STOCKHOLDERS

May 23, 2017

QUESTIONS AND ANSWERS ABOUT THESE PROXY MATERIALS AND VOTING

Why did I receive a notice regarding the availability of proxy materials on the Internet?

Pursuant to rules adopted by the Securities and Exchange Commission (the "SEC"), we have elected to provide access to our proxy materials over the Internet. Accordingly, we have sent you a Notice of Internet Availability of Proxy Materials (the "Notice") because the Board of Directors of Nanometrics Incorporated is soliciting your proxy to vote at the 2017 Annual Meeting of Stockholders, including at any adjournments or postponements of the meeting. All stockholders will have the ability to access the proxy materials on the website referred to in the Notice or request to receive a printed set of the proxy materials. Instructions on how to access the proxy materials over the Internet or to request a printed copy may be found in the Notice.

We intend to mail the Notice on or about April 11, 2017, to all stockholders of record entitled to vote at the annual meeting.

Will I receive any other proxy materials by mail?

We may send you a proxy card, along with a second Notice, on or after April 21, 2017.

How do I attend the annual meeting?

The meeting will be held on Tuesday, May 23, 2017, at 9:00 a.m., local time, at our Corporate Headquarters located at 1550 Buckeye Drive, Milpitas, California 95035. Directions to the annual meeting may be found on our website [www.nanometrics.com](http://www.nanometrics.com) by clicking on "Contact" then "Map & Local Driving Directions." Information on how to vote in person at the annual meeting is discussed below.

Who can vote at the annual meeting?

Only stockholders of record at the close of business on March 27, 2017, will be entitled to vote at the annual meeting. On this record date, there were 25,226,960 shares of common stock outstanding and entitled to vote.

Stockholder of Record: Shares Registered in Your Name

If on March 27, 2017, your shares were registered directly in your name with Nanometrics' transfer agent, Computershare Trust Company, N.A., then you are a stockholder of record. As a stockholder of record, you may vote in person at the meeting or vote by proxy. Whether or not you plan to attend the meeting, we urge you to fill out and return a proxy card (if you have received one), or vote by proxy over the telephone or on the Internet as instructed below, to ensure your vote is counted.



Beneficial Owner Shares Registered in the Name of a Broker or Bank

If on March 27, 2017, your shares were held, not in your name, but rather in an account at a brokerage firm, bank, dealer or other similar organization, then you are the beneficial owner of shares held in “street name” and the Notice is being forwarded to you by that organization. The organization holding your account is considered to be the stockholder of record for purposes of voting at the annual meeting. As a beneficial owner, you have the right to direct your broker or other agent regarding how to vote the shares in your account. You are also invited to attend the annual meeting. However, since you are not the stockholder of record, you may not vote your shares in person at the meeting unless you request and obtain a valid proxy from your broker or other agent.

What am I voting on?

There are six matters scheduled for a vote:

• Election of seven directors;

• Advisory approval of the compensation of Nanometrics' named executive officers, as disclosed in this proxy statement in accordance with SEC rules;

• Approval on an advisory basis of the frequency of advisory votes on executive compensation; and

• Approval of the Nanometrics Incorporated 2017 Executive Performance Bonus Plan;

- Approval of the Nanometrics Incorporated Amended and Restated 2005 Equity Incentive Plan; and

• Ratification of appointment by the Audit Committee of the Board of Directors of PricewaterhouseCoopers LLP as the independent registered public accounting firm of Nanometrics for its fiscal year ending December 30, 2017.

What if another matter is properly brought before the meeting?

The Board of Directors knows of no other matters that will be presented for consideration at the Annual Meeting. If any other matters are properly brought before the meeting, it is the intention of the persons named in the accompanying proxy to vote on those matters in accordance with their best judgment.

How do I vote?

You may either vote "For" all the nominees to the Board of Directors or you may "Withhold" your vote for any nominee you specify. For each of the other matters to be voted on, you may vote "For" or "Against" or "Abstain" from voting.

The procedures for voting are as follows:

Stockholder of Record: Shares Registered in Your Name

If you are a stockholder of record, you may vote in person at the annual meeting or vote by proxy over the telephone, or vote by proxy through the Internet, or vote by proxy using a proxy card that you may request or that we may elect to deliver at a later time. Whether or not you plan to attend the meeting, we urge you to vote by proxy to ensure your vote is counted. You may still attend the meeting and vote in person even if you have already voted by proxy.

- To vote in person, come to the annual meeting and you will receive a ballot when you arrive.

• To vote using a proxy card, you may request a proxy card and simply complete, sign and date the proxy card that may be delivered and return it promptly in the envelope that will be provided with the proxy card. If you return your signed proxy card to us before the annual meeting, we will vote your shares as you direct.

• To vote over the telephone, dial toll-free 1-800-690-6903 using a touch-tone phone and follow the recorded instructions. You will be asked to provide the company number and control number from the Notice. Your telephone vote must be received by 11:59 p.m., Eastern Time on May 22, 2017, to be counted.

• To vote through the Internet, go to [www.proxyvote.com](http://www.proxyvote.com) to complete an electronic proxy card. You will be asked to provide the company number and control number from the Notice. Your Internet vote must be received by 11:59 p.m., Eastern Time on May 22, 2017, to be counted.

**Beneficial Owner: Shares Registered in the Name of Broker or Bank**

If you are a beneficial owner of shares registered in the name of your broker, bank, or other agent, you should have received a Notice containing voting instructions from that organization rather than from Nanometrics. Simply follow the voting instructions in the Notice to ensure that your vote is counted. To vote in person at the annual meeting, you must obtain a valid proxy from your broker, bank or another agent. Follow the instructions from your broker or bank included with these proxy materials, or contact your broker or bank to request a proxy form.

Internet proxy voting may be provided to allow you to vote your shares online, with procedures designed to ensure the authenticity and correctness of your proxy vote instructions. However, please be aware that you must bear any costs associated with your Internet access, such as usage charges from Internet access providers and telephone companies.

How many votes do I have?

On each matter to be voted upon, you have one vote for each share of common stock you own as of March 27, 2017.

What happens if I do not vote?

**Stockholder of Record: Shares Registered in Your Name**

If you are a stockholder of record and do not vote by completing your proxy card, by telephone, through the Internet or in person at the annual meeting, your shares will not be voted.

**Beneficial Owner: Shares Registered in the Name of Broker or Bank**

If you are a beneficial owner and do not instruct your broker, bank, or other agent how to vote your shares, the question of whether your broker or nominee will still be able to vote your shares depends on whether the New York Stock Exchange (“NYSE”) deems the particular proposal to be a “routine” matter. Brokers and nominees can use their discretion to vote “uninstructed” shares with respect to matters that are considered to be “routine,” but not with respect to “non-routine” matters. Under the rules and interpretations of the NYSE, “non-routine” matters are matters that may substantially affect the rights or privileges of stockholders, such as mergers, stockholder proposals, elections of directors (even if not contested), executive compensation (including any advisory stockholder votes on executive compensation and on the frequency of stockholder advisory votes on executive compensation), and certain corporate governance proposals, even if management-supported. Accordingly, your broker or nominee may not vote your shares on Proposals 1, 2, 3, 4 or 5 without your instructions, but may vote your shares on Proposal 6 even in the absence of your instruction.

What if I return a proxy card or otherwise vote but do not make specific choices?

If you return a signed and dated proxy card or otherwise vote without marking voting selections, your shares will be voted, as applicable, “For” the election of all seven nominees for director, “For” the advisory approval of executive compensation, “For” the advisory approval of a frequency of one year on advisory votes on executive compensation, “For” the approval of the Nanometrics Incorporated 2017 Executive Performance Bonus Plan, “For” the approval of the Nanometrics Incorporated Amended and Restated 2005 Equity Incentive Plan, and “For” the ratification of the appointment by the Audit Committee of the Board of Directors of PricewaterhouseCoopers LLP as the independent registered public accounting firm of Nanometrics for its fiscal year ending December 30, 2017. If any other matter is properly presented at the meeting, your proxyholder (one of the individuals named on your proxy card) will vote your

shares using his or her best judgment.

Who is paying for this proxy solicitation?

We will pay for the entire cost of soliciting proxies. In addition to these proxy materials, our directors and employees may also solicit proxies in person, by telephone, or by other means of communication. Directors and employees will not be paid any additional compensation for soliciting proxies. We may also reimburse brokerage firms, banks and other agents for the cost of forwarding proxy materials to beneficial owners.

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What does it mean if I receive more than one Notice?

If you receive more than one Notice, your shares may be registered in more than one name or in different accounts. Please follow the voting instructions on the Notices to ensure that all of your shares are voted.

Can I change my vote after submitting my proxy?

Stockholder of Record: Shares Registered in Your Name

Yes. You can revoke your proxy at any time before the final vote at the meeting. If you are the record holder of your shares, you may revoke your proxy in any one of the following ways:

- You may submit another properly completed proxy card with a later date.
- You may grant a subsequent proxy by telephone or through the Internet.
- You may send a timely written notice that you are revoking your proxy to Nanometrics' Secretary at Nanometrics Incorporated, 1550 Buckeye Drive, Milpitas, California 95035.
- You may attend the annual meeting and vote in person. Simply attending the meeting will not, by itself, revoke your proxy.

Your most current proxy card or telephone or Internet proxy is the one that is counted.

Beneficial Owner: Shares Registered in the Name of Broker or Bank

If your shares are held by your broker or bank as a nominee or agent, you should follow the instructions provided by your broker or bank.

When are stockholder proposals and director nominations due for next year's annual meeting?

To be considered for inclusion in next year's proxy materials, your proposal must be submitted in writing by December 12, 2017, to Nanometrics' Secretary at Nanometrics Incorporated, 1550 Buckeye Drive, Milpitas, California 95035. If the date of our 2018 annual meeting is changed by more than 30 days from the one year anniversary of the date of the 2017 annual meeting, the proposal must be received a reasonable time before we begin to print and mail our proxy materials. The submission of a stockholder proposal does not guarantee that it will be included in our proxy statement.

If you wish to submit a proposal (including a director nomination) at the meeting that is not to be included in next year's proxy materials, you must do so by December 12, 2017 to Nanometrics' Secretary at Nanometrics Incorporated, 1550 Buckeye Drive, Milpitas, California 95035. If we set the date of our 2018 annual meeting to a date more than 30 days from the one year anniversary of the date of our 2017 annual meeting, then the deadline for receipt of stockholder proposals will be no later than the close of business on the later of 120 calendar days in advance of the 2018 annual meeting or ten days following the date on which we first publicly announce the date of the 2018 annual meeting. You are also advised to review Nanometrics' Bylaws, which contain additional requirements about advance notice of stockholder proposals and director nominations.

How are votes counted?

Votes will be counted by the inspector of election appointed for the meeting, who will separately count the votes for the proposals as follows:

- Proposal 1, to elect directors, votes "For," "Withhold" and broker non-votes;

Proposal 2, the advisory vote on executive compensation, votes "For" and "Against," abstentions and, if applicable, broker non-votes;

Proposal 3, the advisory vote on frequency of advisory votes on executive compensation, votes for the frequency of "1 YEAR," "2 YEARS" and "3 YEARS," abstentions and, if applicable, broker non-votes; and

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Proposal 4, the approval of the Nanometrics Incorporated 2017 Executive Performance Bonus Plan, votes "For" and "Against," abstentions and, if applicable, broker non-votes;

Proposal 5, the approval of the Nanometrics Incorporated Amended and Restated 2005 Equity Incentive Plan, votes "For" and "Against," abstentions and, if applicable, broker non-votes; and

Proposal 6, the ratification of the appointment by the Audit Committee of the Board of Directors of PricewaterhouseCoopers LLP as the independent registered public accounting firm of Nanometrics for its fiscal year ending December 30, 2017, votes "For" and "Against," abstentions and, if applicable, broker non-votes.

What are "broker non-votes"?

As discussed above, when a beneficial owner of shares held in "street name" does not give instructions to the broker or nominee holding the shares as to how to vote on matters deemed by the NYSE to be "non-routine," the broker or nominee cannot vote the shares. These unvoted shares are counted as "broker non-votes."

How many votes are needed to approve each proposal?

For Proposal 1, the election of directors, the seven nominees receiving the most "For" votes from the holders of shares present in person or represented by proxy and entitled to vote on the election of directors will be elected. Only votes "For" or "Withheld" will affect the outcome. However, the Board of Directors has adopted a Majority Vote Policy, pursuant to which any director-nominee that is elected but fails to receive more "For" votes than "Withheld" votes must submit his/her resignation for consideration by the Board. The Board will then decide whether to accept the director's resignation. Details of the Majority Vote Policy are set out below under "Corporate Governance - Voting for Directors - Majority Vote Policy."

For Proposal No. 2, the advisory approval of the compensation of Nanometrics' named executive officers, will be approved if it receives "For" votes from the holders of a majority of shares present in person or represented by proxy and entitled to vote on the matter. If you "Abstain" from voting, it will have the same effect as an "Against" vote. Broker non-votes will have no effect.

For Proposal 3, the advisory vote on the frequency of advisory votes on Nanometrics' executive compensation, the frequency ("1 Year," "2 Years" or "3 Years") receiving the greatest number of votes will be considered the frequency recommended by the stockholders to the Board of Directors. If you abstain from voting the abstention will have no effect on this advisory vote since approval by a percentage of the shares present or outstanding is not required. Broker non-votes will have no effect.

For Proposal No. 4, the approval of the Nanometrics Incorporated 2017 Executive Performance Bonus Plan, will be approved if it receives "For" votes from the holders of a majority of shares present in person or represented by proxy and entitled to vote on the matter. If you "Abstain" from voting, it will have the same effect as an "Against" vote. Broker non-votes will have no effect.

For Proposal No. 5, the approval of the Nanometrics Incorporated Amended and Restated 2005 Equity Incentive Plan, will be approved if it receives "For" votes from the holders of a majority of shares present in person or represented by proxy and entitled to vote on the matter. If you "Abstain" from voting, it will have the same effect as an "Against" vote. Broker non-votes will have no effect.

For Proposal No. 6, ratification of the appointment by the Audit Committee of the Board of Directors of PricewaterhouseCoopers LLP as the independent registered public accounting firm of Nanometrics for its fiscal year ending December 30, 2017, will be approved if it receives "For" votes from the holders of a majority of shares present in person or represented by proxy and entitled to vote on the matter. If you "Abstain" from voting, it will have the same effect as an "Against" vote. Broker non-votes will have no effect.

What is the quorum requirement?

A quorum of stockholders is necessary to hold a valid meeting. A quorum will be present if stockholders holding at least a majority of the outstanding shares entitled to vote are present at the meeting in person or represented by proxy. On the record date, there were 25,226,960 shares outstanding and entitled to vote. Thus, the holders of 12,613,481 shares must be present in person or represented by proxy at the meeting to have a quorum.

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Your shares will be counted towards the quorum only if you submit a valid proxy (or one is submitted on your behalf by your broker, bank or other nominee) or if you vote in person at the meeting. Abstentions and broker non-votes will be counted towards the quorum requirement. If there is no quorum, the holders of a majority of shares present at the meeting in person or represented by proxy may adjourn the meeting to another date.

How can I find out the results of the voting at the annual meeting?

Preliminary voting results will be announced at the annual meeting. In addition, final voting results will be published in a current report on Form 8-K that we expect to file within four business days after the annual meeting. If final voting results are not available to us in time to file a Form 8-K within four business days after the meeting, we intend to file a Form 8-K to publish preliminary results and, within four business days after the final results are known to us, file an additional Form 8-K to publish the final results.

## PROPOSAL 1

### ELECTION OF DIRECTORS

At the 2017 annual meeting of stockholders, unless otherwise instructed, the proxy holders will vote the proxies received by them for the nominees named below, each of whom has been nominated by the Board of Directors.

The Board of Directors currently has seven members. All current directors are standing for election at the 2017 annual meeting. The nominees were recommended by the Nominating and Governance Committee of the Board of Directors. All of the nominees named below, with the exception of Robert G. Deuster, were previously elected as directors by our stockholders. Mr. Deuster was identified by and recommended to the Nominating and Governance Committee as a member of our Board of Directors by a non-management director.

If the nominees are unable or decline to serve as a director at the time of the annual meeting, the proxies will be voted for any nominee who shall be designated by the present Board to fill the vacancy. We do not have any reason to believe that any of the nominees will be unable or will decline to serve as a director. Directors are elected by a plurality of the votes of the holders of shares present in person or by proxy and entitled to vote on the election of directors. The seven nominees receiving the highest number of affirmative votes will be elected. Pursuant to our Majority Vote Policy, if a nominee for director receives a greater number of "Withhold" votes than "For" votes, that director shall promptly tender to the Nominating and Governance Committee his/her offer of resignation. Within 90 days following certification of the stockholder vote, the Committee shall recommend to the Board the action to be taken with respect to such offer of resignation, and the Board shall consider and act upon the Committee's recommendation. Unless marked otherwise, the proxy holders will vote proxies returned to us for the nominees named below.

#### Director Nominees

Set forth below is information regarding each of our directors, including their ages, as of April 6, 2017, the periods during which they have served as a director, certain information as to principal occupations and directorships held by them in corporations whose shares are publicly registered, and a discussion of the specific experience, qualifications, attributes or skills of each nominee that led the Board to nominate that person as a nominee for director, as of the date of this proxy statement.

J. Thomas Bentley, age 67, has served as a director since April 2004. Mr. Bentley served as a Managing Director at SVB Alliant (formerly Alliant Partners), a mergers and acquisitions firm, from 1990, when he co-founded the firm, until October 2005. Mr. Bentley currently serves on the board of directors of Rambus, Inc., a chip interface technology company. Mr. Bentley holds a B.A. degree in Economics from Vanderbilt University and a Master of Science in Management from the Massachusetts Institute of Technology. Mr. Bentley's extensive knowledge of the capital markets, strategic planning and mergers and acquisitions from his experience at SVB Alliant provides expertise to the Board in matters regarding Nanometrics' capital requirements and strategic direction.

Edward J. Brown, Jr., age 59, has served as a director since February 2013. From May 2013 until September 2015, Mr. Brown was the Chief Executive Officer of Cymer Light Source, following the merger of Cymer, Inc. with ASML Holding Ltd. Mr. Brown served as President and Chief Operating Officer of Cymer, Inc. from September 2005 until the May 2013 merger with ASML. From 1984 to 2005, Mr. Brown was employed at Applied Materials, Inc. where he held numerous high-level management positions including group vice president and senior advisor to the president, vice president and general manager of the Intel business unit, as well as managing director heading up their largest product division, Global Operations. Prior to Applied Materials Inc., Mr. Brown held key engineering positions at TRW Corporation and Burroughs Corporation. Mr. Brown received a master's degree in business administration from

National University and a bachelor's degree in industrial studies from San Diego State University. Mr. Brown's qualifications to serve as a director include his 30 years of experience in the semiconductor equipment industry and his extensive senior executive management experience.

Robert Deuster, age 66, has served as a director since March 2017. Mr. Deuster has been the Chief Executive Officer of Collective Universe, Inc., a public company that provides authentication and grading services to dealers and collectors of coins, trading cards, event tickets, autographs and historical and sports memorabilia, since October 2012. He is also a director of Collective Universe, Inc. Mr. Deuster served as Chairman and Chief Executive Officer of Newport Corporation (acquired by MKS Instruments in 2016), a public company that is a global supplier of laser, optical and motion control products, from May 1996 until his retirement in October of 2007. He also served as President of Newport from May 1996 until July 2004, and in June 1997 became Chairman of the Board. From 1985 to 1996, Mr. Deuster served in various senior management positions at Applied Power, Inc. (now Actuant Corporation, a New York Stock Exchange listed company), which is a global manufacturer of electrical and hydraulic products, serving as Senior Vice President of the Distributed Products Group from 1994 to 1996, President of the Barry Controls Division from 1989 to 1994, President of the APITECH Division from 1986 to 1989 and Vice

President of Sales and Marketing of the Enerpac Division from 1985 to 1986. From 1975 to 1985, he held engineering and marketing management positions at General Electric Company's Medical Systems Division. Mr. Deuster currently serves as a director of Ondax, Inc., a private optical components company. He also was a director of Symmetry Medical Inc., a publicly traded provider of medical devices and solutions to the global orthopedic market, until that company was sold in June 2016. Mr. Deuster received a B.S. in Electrical Engineering from Marquette University in 1973. Mr. Deuster holds a Masters Professional Director Certification from the American College of Corporate Directors, a public company director education and credentialing organization. Mr. Deuster's extensive management experience, including as a CEO of and a senior executive at other public companies, combined with his experience as an independent director of both public and private companies, qualifies him to serve as a member of our Board of Directors.

Bruce C. Rhine, age 59, has served as our Chairman of the Board of Directors since July 2007 and as a director since July 2006. From July 2006 to February 2008, Mr. Rhine served as our Chief Strategy Officer. From March 2007 to August 2007, Mr. Rhine served as our Chief Executive Officer. From 2000 to 2006, Mr. Rhine served as Chairman and Chief Executive Officer of Accent Optical Technologies, Inc. and as its President from January 2003 to April 2005 and from August 2000 to September 2001. Mr. Rhine holds a B.S. degree in Chemical Engineering and an M.B.A. in Finance from The Pennsylvania State University. In addition to his experience from his prior senior management service to Nanometrics, Mr. Rhine brings extensive industry knowledge and executive management experience to the Board.

Christopher A. Seams, age 54, has served as a director since August 2015. Mr. Seams served as the Chief Executive Officer of Deca Technologies from June 2013 to 2016, where he was responsible for the overall management of the business. Prior to Deca Technologies, Mr. Seams served as executive vice president of sales and marketing at Cypress Semiconductor, and held various technical and operational management positions in its manufacturing, development and operations. Prior to joining Cypress in 1990, he worked in process development for Advanced Micro Devices and Philips Research Laboratories. Mr. Seams also serves on the Board of Directors of Xperi Corporation, and previously served on the Board of Directors of Tessera Technologies, Inc. until December 2016. Mr. Seams earned his bachelor's degree in electrical engineering from Texas A&M University and his master's degree in electrical and computer engineering from the University of Texas at Austin. Mr. Seams is a senior member of the Institute of Electrical and Electronics Engineers. The Board believes that Mr. Seams brings extensive management, sales and marketing, and engineering experience in the semiconductor industry to his role as a member of the Board.

Timothy J. Stultz, Ph.D., age 69, has served as President, Chief Executive Officer and director of Nanometrics Incorporated since August 2007. Dr. Stultz has more than 30 years of executive management experience. Prior to joining Nanometrics, Dr. Stultz was President and Chief Executive Officer of Imago Scientific Instruments Corporation, a supplier of proprietary 3-D atom probe microscopes to the research, materials and microelectronics industries; President and Chief Executive Officer for ThauMDx, a developer of diagnostic systems for the healthcare industry; and Vice President and General Manager of Veeco Instruments' Metrology and Instrumentation Business. Dr. Stultz, previously served as a member of the board of directors of Tessera Technologies, Inc. Dr. Stultz received his B.S., M.S. and Ph.D. in Materials Science and Engineering from Stanford University. In addition to his institutional knowledge as the executive leader of Nanometrics, Dr. Stultz's scientific background and significant senior executive management experience in high tech industries is important to the Board.

Christine A. Tsingos, age 58, has served as a director since May 2014. Ms. Tsingos is currently the Executive Vice President and Chief Financial Officer of Bio-Rad Laboratories. In 2002, Ms. Tsingos was named Bio-Rad's Chief Financial Officer; in 2003, she became Vice President and in 2012, she was named Executive Vice President. Bio-Rad designs, manufactures and distributes a broad range of innovative products and solutions for the global life science and clinical diagnostic markets. Prior to Bio-Rad, Ms. Tsingos held executive positions at Autodesk, The Cooper Companies, and Attest Systems. Prior to that, Ms. Tsingos was a consultant to Attest Systems from 2000 to 2002. Ms.

Tsingos also serves on the Board of Directors of Varex Imaging Corporation. She earned her bachelor of arts in International Studies from the American University in Washington D.C. and an M.B.A in International Business from the George Washington University. In 2010, Ms. Tsingos was awarded the prestigious Bay Area CFO of the Year. Ms. Tsingos' qualifications to serve as a director include over 25 years of financial and operational experience

THE BOARD OF DIRECTORS RECOMMENDS A VOTE IN FAVOR OF EACH NAMED NOMINEE.

## CORPORATE GOVERNANCE

### Board Structure

Bruce C. Rhine serves as the Chairman of the Board and Timothy J. Stultz, Ph.D. serves as the President, Chief Executive Officer and a director of Nanometrics. We believe that having a separate Chairman and Chief Executive Officer is appropriate and is consistent with corporate governance best practices. From July 2006 to February 2008, Mr. Rhine served as our Chief Strategy Officer, and from March 2007 to August 2007, Mr. Rhine served as our Chief Executive Officer. Because of his previous roles with Nanometrics, Mr. Rhine is intimately familiar with Nanometrics' business and industry, and very capable of effectively identifying strategic priorities, leading discussions of the Board of Directors and defining Nanometrics' strategic objectives. The Board of Directors determined that Mr. Rhine became an independent member of the Board effective February 2011 under the NASDAQ Listing Rules due to the passage of time subsequent to his previous management role with Nanometrics. Dr. Stultz, as the Chief Executive Officer, is the individual selected by the Board of Directors to manage Nanometrics on a day-to-day basis, and his prior experience and direct involvement in Nanometrics' operations allow him to provide valuable insights with respect to strategic planning and the operational requirements to meet Nanometrics' short- and long-term objectives. Nanometrics' independent directors bring experience, oversight and expertise from outside the company and industry.

### The Board's Role in Risk Oversight

One of the Board's primary responsibilities is reviewing Nanometrics' strategic plans and objectives, including oversight of the principal risk exposures of the company. The Board does not have a standing risk management committee, but rather administers this oversight function directly through the Board as a whole, as well as through various Board standing committees that address risks inherent in their respective areas of oversight. In particular, the Board is responsible for monitoring and assessing strategic risk exposure, including a determination of the nature and level of risk appropriate for the company. The Audit Committee assists the Board in oversight and monitoring of the legal and financial risks facing Nanometrics, and management's approach to addressing these risks and strategies for risk mitigation. The Audit Committee is also responsible for discussing guidelines and policies governing the process by which management and other persons responsible for risk management, assess and manage Nanometrics' exposure to risk, as well as Nanometrics' major financial risk exposures and the steps management has taken to monitor and control such exposures, based on consultation with Nanometrics' management and independent auditors. Our Compensation Committee assesses and monitors whether any of our compensation policies and programs has the potential to encourage excessive risk-taking. The Board addresses, at least annually, the principal current and future risk exposures of Nanometrics. The Board receives regular reports from members of senior management on areas of material risk to Nanometrics, including operational, financial, legal and regulatory, strategic and reputation risks.

### Board of Directors Meetings and Committees

The full Board of Directors met seven times during the fiscal year ended December 31, 2016. During the fiscal year ended December 31, 2016, all directors attended at least 75% of the aggregate number of meetings of the Board of Directors and meetings of committees on which they served. The standing committees of the Board of Directors include an Audit Committee, a Compensation Committee and a Nominating and Governance Committee.

Directors are encouraged to attend the annual meeting of stockholders. All members of the Board of Directors, then in office, attended the 2016 annual meeting of stockholders.

The Board of Directors has determined that all of its directors meet the independence requirements of the NASDAQ Stock Market, with the exception of Timothy J. Stultz, Ph.D., due to his position as our President and Chief Executive Officer.



The Board has a standing Audit Committee, Compensation Committee and Nominating and Governance Committee. The following table provides membership and meeting information for fiscal 2016 for each of the Board standing committees:

Name	Audit	Compensation	Nominating and Governance
Bruce C. Rhine	X		X*
J. Thomas Bentley	X	X	
Edward J. Brown, Jr.		X*	X
Christopher A. Seams	X		X
Christine A. Tsingos	X*	X	
Total meetings in fiscal 2016	8	5	5

\*Chair of the committee

#### Audit Committee

The Audit Committee of the Board of Directors oversees our financial reporting, our internal audit and control functions, the results and scope of the annual audit and quarterly reviews conducted by our independent registered public accounting firm, and our compliance with legal matters that may have a significant impact on our financial reports. In addition, the Audit Committee has the responsibility to consider and recommend the engagement of, and to review and approve fee arrangements with, our independent registered public accounting firm. The Audit Committee also monitors transactions between Nanometrics and our officers and directors for any potential conflicts of interest and assists the Board of Directors in its risk oversight role.

The Board of Directors has determined that each member of our Audit Committee is “independent” within the meaning of the rules of the Securities and Exchange Commission and the Listing Rules of NASDAQ, and has the qualifications or previous experience to be able to read and understand financial statements. Further, the Board of Directors has determined that each of Ms. Tsingos, Chair of the Audit Committee, and Mr. Bentley qualify as an “audit committee financial expert,” as such term is used in the Securities and Exchange Commission rules.

The report of the Audit Committee is included at the end of the “Corporate Governance” section of this Proxy Statement. The Board of Directors has adopted a written Audit Committee Charter, which is available on our website at <http://investor.nanometrics.com/governance.cfm>.

#### Compensation Committee

The Compensation Committee has overall responsibility for evaluating and approving our executive officer compensation, including incentive compensation, benefit, severance, equity-based and other compensation plans, policies and programs. During the 2016 fiscal year, the Compensation Committee reviewed and approved our compensation policies and programs for the chief executive officer, as well as established and had oversight responsibility with regard to the compensation of other executive officers of Nanometrics. The Compensation Committee also has the responsibility to recommend to the Board of Directors a compensation program for non-employee members of the Board.



The Compensation Committee is also responsible for approving the grant of stock options and stock awards to our employees under our equity compensation plans. The Compensation Committee has delegated to Nanometrics' officers the authority, within certain parameters, to approve the grant of stock options and restricted stock units, or RSUs, with respect to employees and consultants who are not executive officers for purposes of Section 16 of the Exchange Act and hold positions below the level of vice president. The Compensation Committee also assists the Board of Directors in assessing the risks, if any, associated with Nanometrics' overall compensation policies. Although the Compensation Committee has not done so to date, the Compensation Committee may, to the extent permitted under applicable law, the rules of NASDAQ and the Securities and Exchange Commission, and Nanometrics' Certificate of Incorporation and Bylaws, form and delegate its authority to a subcommittee, when appropriate, including delegating to a subcommittee consisting solely of independent, non-employee, outside directors to make grants of stock options or RSUs to executive officers and directors, provided that such grants are presented to the full Compensation Committee for approval at the following Compensation Committee meeting.

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Each current member of our Compensation Committee is an “outside” director as defined in Section 162(m) of the Internal Revenue Code of 1986, as amended, and a “non-employee” director within the meaning of Rule 16b-3 of the Exchange Act. The Board of Directors has determined that each of the directors serving on our Compensation Committee is “independent” within the meaning of the Listing Rules of NASDAQ as currently in effect.

The Compensation Committee Report is included under the caption “Compensation Committee Report” of this Proxy Statement. The Board of Directors has adopted a written Compensation Committee Charter, which is available on our website at <http://investor.nanometrics.com/governance.cfm>.

Compensation Committee Processes and Procedures. Typically, the Compensation Committee meets at least quarterly, and with greater frequency, if necessary. The Compensation Committee meets regularly in executive session. However, from time to time, various members of management and other employees as well as outside consultants may be invited by the Compensation Committee to make presentations, to provide financial or other background information or advice, or to otherwise participate in Compensation Committee meetings. The Chief Executive Officer may not participate in, or be present during, any deliberations or determinations of the Compensation Committee regarding his compensation. The charter of the Compensation Committee grants the Compensation Committee full access to all books, records, facilities and personnel of Nanometrics, as well as authority to obtain, at the expense of Nanometrics, advice and assistance from internal and external legal, accounting or other advisers and consultants and other external resources that the Compensation Committee considers necessary or appropriate in the performance of its duties. In particular, the Compensation Committee has the authority to retain compensation consultants to assist in its evaluation of executive and director compensation, including the authority to approve the consultant’s reasonable fees and other retention terms.

The Compensation Committee typically makes most of the significant adjustments to annual compensation, determines bonus and equity awards, and approves annual performance objectives, at one or more meetings held during the first quarter of the year. However, the Compensation Committee also considers matters related to individual compensation, such as compensation for new executive hires, as well as high-level strategic issues, such as the efficacy of Nanometrics’ compensation strategy, potential modifications to that strategy and new trends, plans or approaches to compensation, at various meetings throughout the year. Generally, the Compensation Committee’s process comprises two related elements: the determination of compensation levels and the establishment of performance objectives for the current year. As discussed further in the Compensation Discussion and Analysis below, for executives other than the Chief Executive Officer, the Compensation Committee solicits and considers evaluations and recommendations submitted to the Committee by the Chief Executive Officer. In the case of the Chief Executive Officer, the evaluation of his performance is conducted by the Compensation Committee, which determines any adjustments to his compensation as well as awards to be granted. For all executives, as part of its deliberations, the Compensation Committee may review and consider, as appropriate, materials such as financial reports and projections, operational data, tax and accounting information, tally sheets that set forth the total compensation that may become payable to executives in various hypothetical scenarios, executive and director stock ownership information, company stock performance data, analyses of historical executive compensation levels, current company-wide compensation levels, and recommendations of the Compensation Committee’s compensation consultant, including analyses of executive compensation paid at other companies identified by the consultant. Under its charter, the Compensation Committee may select, or receive advice from, a compensation consultant, legal counsel or other adviser to the Compensation Committee, other than in-house counsel and certain other types of advisers, only after taking into consideration six factors, prescribed by the SEC and NASDAQ, that bear upon the adviser’s independence; however, there is no requirement that any adviser be independent.

During the past fiscal year, the Compensation Committee engaged Compensia, Inc. as its compensation consultant. Compensia has advised the committee for several years and is very familiar with the industry and geographies in which Nanometrics operates. The Compensation Committee requested that Compensia:

- evaluate the efficacy of Nanometrics' existing compensation strategy and practices in supporting and reinforcing Nanometrics' long-term strategic goals;
- assist in refining Nanometrics' compensation strategy and in developing and implementing an executive compensation program to execute that strategy; and
- provide market information to assist Compensation Committee in establishing 2016 executive compensation.

As part of its engagement, the Compensation Committee requested that Compensia develop a comparative group of companies and to perform analyses of competitive performance and compensation levels for that group. The Committee instructed Compensia to select comparator companies similarly sized and in the same or closely related industry to that of Nanometrics using factors such as, but not limited to, revenue size, market capitalization, and number of employees. At the request of the Compensation Committee, Compensia also provided information regarding the labor markets in which Nanometrics competes. Compensia ultimately developed

recommendations that were presented to the Compensation Committee for its consideration. Following an active dialogue with Compensia, the Compensation Committee made its independent determinations regarding the compensation of Nanometrics' executive officers. These decisions are discussed in the Compensation Discussion and Analysis section of this Proxy Statement.

#### Nominating and Governance Committee

The Nominating and Governance Committee assists the Board of Directors in identifying and qualifying candidates to join the Board of Directors and addresses various governance issues. The Nominating and Governance Committee utilizes a variety of methods for identifying and evaluating nominees. Its general policy is to assess the appropriate size and needs of the Board of Directors and whether any vacancies are expected due to retirement or otherwise. In addition, candidates for director nominees are typically reviewed in the context of the current composition of the Board, the operating requirements of Nanometrics, the current needs of the Board, and the long-term interests of stockholders, with the goal of maintaining a balance of knowledge, experience and capability. In the event those vacancies are anticipated, or otherwise arise, the Nominating and Governance Committee will consider recommending various potential candidates to fill such vacancies. Candidates may come to the attention of the Nominating and Governance Committee through its current members, stockholders or other persons. Pursuant to the Nominating and Governance Committee charter, the Committee will consider properly submitted stockholder recommendations for nominations for candidacy. Stockholders who wish to recommend individuals for consideration by the Nominating and Governance Committee to become nominees for election to the Board may do so by delivering a written recommendation to the Nominating and Governance Committee at our principal offices. Nominees may also be submitted directly by stockholders in accordance with Nanometrics' Bylaws as discussed under "Questions and Answers About These Proxy Materials and Voting - When are stockholder proposals and director nominations due for next year's annual meeting?" above. Although the Nominating and Governance Committee does not have a formal policy regarding stockholder recommendations for director nominees because the Board of Directors has an open policy regarding communications with stockholders and has not deemed it necessary to develop a formal policy regarding recommendations for director nominations by stockholders, the Nominating and Governance Committee intends to consider director candidates properly submitted by stockholders under the same criteria as candidates recommended by directors or others.

The Nominating and Governance Committee has no specific minimum qualifications for director candidates. In general, however, persons considered for Board of Directors positions must have demonstrated leadership capabilities, be of sound mind and high moral character, have no personal or financial interest that would conflict or appear to conflict with the interests of Nanometrics and be willing and able to commit the necessary time for Board of Directors and committee service. The Nominating and Governance Committee also intends to consider such factors as possessing relevant expertise upon which to be able to offer advice and guidance to management, demonstrated excellence in his or her field, having the ability to exercise sound business judgment and having the commitment to rigorously represent the long-term interests of Nanometrics' stockholders. However, the Nominating and Governance Committee retains the right to modify these qualifications from time to time.

The Nominating and Governance Committee also recommends to the Board of Directors certain guidelines regarding corporate governance and standards regarding the independence of outside directors applicable to Nanometrics and reviews such guidelines and standards and the provisions of the Nominating and Governance Committee charter on a regular basis to confirm that such guidelines, standards and charter remain consistent with sound corporate governance practices and with any legal or regulatory requirements of NASDAQ and the Securities and Exchange Commission. The Nominating and Governance Committee also monitors the Board of Directors, and Nanometrics' compliance with any commitments made to our regulators and changes in corporate governance practices.

The Nominating and Governance Committee does not have a stated policy with regard to diversity of the Board of Directors. However, the Committee believes that Board members should represent a balance of diverse backgrounds and skills, including marketing, finance, manufacturing, engineering, science, and international experience.

The Board of Directors has determined that each of the directors serving on our Nominating and Governance Committee is “independent” within the meaning of the Listing Rules of NASDAQ.

The Board of Directors has adopted a written Nominating and Governance Committee Charter, which is available on our website at <http://investor.nanometrics.com/governance.cfm>.

#### Voting For Directors – Majority Vote Policy

If a nominee for director in an uncontested election receives a greater number of “Withhold” votes for election than “For” votes (“Majority Withheld Vote”), that director must promptly tender to the Board his or her offer of resignation. If a director receives a

Majority Withheld Vote, our Nominating and Governance Committee (or such other committee as the Board may appoint) shall make a recommendation to the Board, which will decide whether to accept or reject the resignation previously tendered by such director.

The Board must act on the tendered resignation, taking into account the recommendation of such committee, within 90 days from the date of the certification of the election results. The director whose resignation is under consideration is not permitted to participate in the recommendation of the committee or deliberations of the Board with respect to his or her resignation. However, if the only directors who did not receive a Majority Withheld Vote in the same election constitute less than a majority of directors, all directors may participate in the action regarding whether to accept the resignation offers. If a director's resignation is not accepted by the Board, the director will continue to serve until the next annual meeting of shareholders or until his or her successor is duly elected and qualified, or his or her earlier resignation or removal. If a director's resignation is accepted by the Board, then the Board, in its sole discretion, must fill any resulting vacancy or decrease the size of the Board.

#### Stockholder Communication Policy

We have established a formal process for stockholders to send communications to the Board of Directors or to individual directors. The names of all directors are available to stockholders in this Proxy Statement. Stockholder communications may be submitted in writing to Nanometrics Incorporated, 1550 Buckeye Drive, Milpitas, California 95035, Attention: Office of the Secretary. If we receive any stockholder communication intended for the full Board of Directors or any individual director, we will forward the communication to the full Board of Directors or the individual director, unless the communication is clearly of a marketing nature or is unduly hostile, threatening, illegal or similarly inappropriate.

#### Code of Ethics

We have adopted a Code of Business Conduct and Ethics that applies to all directors, executive officers and employees. We post our Code of Business Conduct and Ethics on our website at: <http://investor.nanometrics.com/governance.cfm>. If Nanometrics makes any substantive amendments to the Code of Business Conduct and Ethics or grants any waiver from a provision of the Code of Business Conduct and Ethics to any executive officer or director, Nanometrics will promptly disclose the nature of the amendment or waiver on its website.

#### Stock Ownership Guidelines

We have a stock ownership policy that establishes for our non-employee directors and executive officers guidelines for minimum levels of stock ownership in the company by 2019 or within five years of their appointment to the Board of Directors, hire date, or promotion, whichever is later. The stock ownership guidelines are as follows:

- ✦ For non-employee directors, ownership of stock with a value equal to three times the annual Board retainer;
- ✦ For our Chief Executive Officer, ownership of stock with a value equal to three times his annual base salary; and
- ✦ For each other executive officer, ownership of stock with a value equal to his or her annual base salary.

#### Related Person Transaction Policy

Nanometrics has a written policy regarding related party transactions that requires that the Audit Committee review any transaction or series of transactions in excess of \$50,000 in any year between Nanometrics, on the one hand, and an officer, director or 5% or greater stockholder, on the other. Nanometrics' Chief Financial Officer has the responsibility for bringing the facts concerning a proposed related party transaction to the Audit Committee. The policy permits approval only in the event of a finding that the transaction is on terms no less favorable than would

have been obtained in an ordinary arms-length transaction with an independent third party.

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Report of the Audit Committee of the Board of Directors\*

The Audit Committee reviews Nanometrics' financial reporting process on behalf of the Board of Directors. Management has the primary responsibility for establishing and maintaining adequate internal control over financial reporting, for preparing the financial statements and for the reporting process. The Audit Committee members do not serve as professional accountants or auditors, and their functions are not intended to duplicate or to certify the activities of management and the independent registered public accounting firm. Nanometrics' independent auditors are engaged to audit and report on the conformity of our financial statements to accounting principles generally accepted in the United States and the effectiveness of our internal control over financial reporting.

In this context, the Audit Committee reviewed and discussed with management the audited financial statements of Nanometrics for the year ended December 31, 2016. The Audit Committee has discussed with the independent registered public accounting firm the matters required to be discussed by Auditing Standard 1301, Communications with Audit Committees, as adopted by the Public Company Accounting Oversight Board ("PCAOB"). In addition, the Audit Committee has received the written disclosures and the letter from the independent registered public accounting firm required by applicable requirements of the PCAOB regarding the independent registered public accounting firm's communications with the Audit Committee concerning independence, and has discussed with the independent registered public accounting firm its independence.

Based on the foregoing, the Audit Committee recommended to the Board of Directors that our audited financial statements as of and for the year ended December 31, 2016, be included in our Annual Report on Form 10 K for the fiscal year ended December 31, 2016, for filing with the United States Securities and Exchange Commission.

The Audit Committee

Christine A. Tsingos (Chair)

J. Thomas Bentley

Bruce C. Rhine

Christopher A. Seams

\*The material in this report is not "soliciting material," is not deemed "filed" with the Securities and Exchange Commission and is not to be incorporated by reference in any filing of Nanometrics under the Securities Act or the Exchange Act, whether made before or after the date hereof and irrespective of any general incorporation language in any such filing.



## SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth beneficial ownership of Nanometrics common stock as of March 1, 2017, by each director, by each of the named executive officers, by all directors and executive officers as a group, and by all persons known to Nanometrics to be the beneficial owners of more than 5% of Nanometrics stock. Unless otherwise indicated, all persons and entities have sole voting and investment power over the shares reported. As of the close of business on March 1, 2017, there were 25,186,831 shares of common stock outstanding.

Name Of Beneficial Owner – Principal Stockholders	Amount and Nature of Beneficial Ownership <sup>(1)</sup> Shares	
	Number of Shares	Percent of Shares
Franklin Resources, Inc. <sup>(2)</sup>	Beneficially Owned 1,476,218	Beneficially Owned 5.9%
Royce & Associates, LLC <sup>(3)</sup>	Beneficially Owned 1,846,681	Beneficially Owned 7.3%
BlackRock, Inc. <sup>(4)</sup>	Beneficially Owned 2,826,067	Beneficially Owned 11.2%
Name Of Beneficial Owner – Directors And Officers	Number of Shares	Percent of Shares
Bruce C. Rhine <sup>(5)</sup>	Beneficially Owned 755,031	Beneficially Owned 3.0%
J. Thomas Bentley <sup>(6)</sup>	Beneficially Owned 85,532	Beneficially Owned *
Edward Brown Jr.	Beneficially Owned 19,318	Beneficially Owned *
Christine A. Tsingos <sup>(7)</sup>	Beneficially Owned 327,287	Beneficially Owned 1.3%
Christopher A. Seams	Beneficially Owned 5,108	Beneficially Owned *
Robert Deuster	Beneficially Owned —	Beneficially Owned *
Timothy J. Stultz, Ph.D. <sup>(8)</sup>	Beneficially Owned 450,768	Beneficially Owned 1.8%
Jeffrey Andreson	Beneficially Owned 27,880	Beneficially Owned *
Janet Taylor	Beneficially Owned 6,064	Beneficially Owned *
Dr. S. Mark Borowicz <sup>(9)</sup>	Beneficially Owned 4,428	Beneficially Owned *
Rollin Kocher <sup>(10)</sup>	Beneficially Owned 313	Beneficially Owned *
All executive officers and directors as a group (12 persons) <sup>(11)</sup>	Beneficially Owned 1,700,074	Beneficially Owned 6.7%

\* Less than 1 percent

(1) As determined in accordance with Rule 13d-3 under the Securities and Exchange Act of 1934. Information with respect to principal stockholders is obtained from Schedules 13G and 13G/A and except as indicated in the footnotes below, is as of December 31, 2016, and does not reflect changes, if any, since that date.

(2) According to a Schedule 13G/A filed with the SEC on February 9, 2017, reporting beneficial ownership as of December 31, 2016, each of Franklin Resources, Inc. ("FRI"), Charles B. Johnson and Rupert H. Johnson has no voting or investment power over any of these shares but may be deemed to be the beneficial owner of these shares of common stock. Franklin Advisers, Inc. has sole voting and investment power over 1,456,118 of these shares. The address of FRI, Mr. Johnson, Mr. Johnson and Franklin Advisers, Inc. is One Franklin Parkway, San Mateo, CA 94403. Each of these entities disclaim beneficial ownership of these shares.

- (3) According to a Schedule 13G/A filed with the SEC on January 11, 2017, reporting beneficial ownership as of December 31, 2016, Royce & Associates, LP has sole voting and investment power over all of these shares. The address of Royce & Associates, LP is 745 Fifth Avenue, New York, NY 10151.
- (4) According to a Schedule 13G/A filed with the SEC on January 17, 2017, reporting beneficial ownership as of December 31, 2016, BlackRock, Inc. has sole voting power with respect to 2,776,671 of these shares and sole investment power over all of these shares. The address of BlackRock, Inc. is 55 East 52nd Street, New York, NY 10022.
- (5) Includes 6,988 shares that may be acquired by exercise of stock options within 60 days of March 1, 2017. Mr. Rhine has indirect beneficial ownership over 1,428 shares owned by his spouse.
- (6) Includes 6,988 shares that may be acquired by exercise of stock options within 60 days of March 1, 2017.
- (7) Includes 314,899 number of shares owned by Bio Rad Laboratories Inc. over which Ms. Tsingos has shared voting and investment power.
- (8) Includes 252,499 shares that may be acquired by exercise of stock options or vesting of restricted stock units within 60 days of March 1, 2017.
- (9) Includes 209 shares that may be acquired by exercise of stock options within 60 days of March 1, 2017.
- (10) Includes 313 shares that may be acquired by exercise of stock options within 60 days of March 1, 2017.
- (11) Includes 266,997 shares that may be acquired by exercise of stock options or vesting of restricted stock units within 60 days of March 1, 2017, including those reflected in footnotes 5 through 9 above.

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## SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Exchange Act requires our executive officers and directors, and persons who own more than 10% of a registered class of our equity securities, to file reports of ownership and changes in ownership with the Securities and Exchange Commission. Executive officers, directors and greater than 10% stockholders are required by Securities and Exchange Commission regulations to furnish Nanometrics with copies of all Section 16(a) forms that they file. Nanometrics assists our executive officers and directors in the preparation and filing of Forms 4, and generally files the Forms 4 on behalf of our directors and executive officers using the powers of attorney given to certain executive officers of Nanometrics by our executive officers and directors delegating the authority to make the filings. Based solely on our review of the copies of such form received by us or written representations from certain reporting persons, we believe that our executive officers, directors and greater than 10% stockholders have complied with all applicable filing requirements, except as follows: each of Dr. Timothy J. Stultz, our Chief Executive Officer, Janet Taylor, our General Counsel, and Kevin Heidrich, our Senior Vice President, Strategic Marketing and Business Development, filed one Form 4 late.

## EXECUTIVE COMPENSATION

### 2016 Compensation Discussion and Analysis

#### Philosophy and Objectives

Nanometrics' compensation program for our named executive officers (the officers appearing in our summary compensation table) is intended to enable us to attract, retain and motivate key executives and to align their interests with those of the stockholders by tying executive compensation to our short-term and long-term company performance. The Compensation Committee acts on behalf of the Board of Directors and, by extension, on behalf of our stockholders, to establish, implement and continually monitor adherence to our compensation philosophy. The Compensation Committee's philosophy is to design a compensation package that addresses the need for alignment between the interests of executive officers and stockholders in terms of producing short-term and long-term enhanced stockholder value, as well as achieves retention and motivation through appropriate incentives. This philosophy takes into account both internal equity and external market information relative to our industry and size. The Compensation Committee designs the executive compensation program with the goal of providing total compensation to our named executive officers that is competitive and consistent with our compensation philosophy.

The Compensation Committee's principal objectives are to: (a) develop, recommend and approve compensation packages that are consistent with our philosophy; (b) link executive compensation to the achievement of our financial, management or other performance goals and; (c) support our culture and core values by promoting equity among the executive team and maintaining the competitiveness of our overall compensation when compared with external opportunities.

#### Philosophy and Objectives Applied

The Compensation Committee relied on an independent outside compensation consulting firm, Compensia, our human resources department, and (other than with respect to himself) Timothy Stultz, our Chief Executive Officer ("CEO"), to

provide information and recommendations to establish specific compensation packages for our named executive officers for the 2016 fiscal year that ended December 31, 2016.

Our executive compensation packages for the 2016 fiscal year included three primary components - base salaries, cash bonus award opportunities and long-term equity incentive awards. Other elements of compensation include limited perquisites, other benefits (including retirement (401(k) plan, including matching contributions), health, and welfare benefits), and severance arrangements. The Compensation Committee considered the three primary components individually and in the aggregate to assess their competitiveness and effectiveness in retaining our executives and motivating them to create short-term and long-term enhanced stockholder value.

In the Compensation Committee's review of our named executive compensation for the 2016 fiscal year, the Compensation Committee considered publicly available market data for companies that typically include similarly-sized semiconductor and semiconductor capital equipment or similar firms for each executive in a like or similar role. In November 2015, for compensation decisions for the 2016 fiscal year, Compensia recommended and the Compensation Committee approved modifications to the group of peer companies for conducting compensation analysis to better reflect our size and business. The Compensation Committee considered the following factors:

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primary focus on semiconductor and semiconductor equipment companies, and secondary focus on hardware companies;

revenues;

market capitalization; and

several other factors including profitability, growth and revenues relative to market capitalization.

The Compensation Committee removed eight companies from the peer group companies used in our 2015 fiscal year analysis: two companies (PLX Technology, Inc. and Silicon Image, Inc.) because they were acquired; one company (Ambarella) because it was above the market capitalization range; and five companies (Brooks Automation, Inc., The GSI Group, Inc., Lattice Semiconductor Corporation, Veeco Instruments Inc., and Xcerra Corporation) because they were above the revenue range. The Compensation Committee added three new companies (Electro Scientific Industries, Inc., Axcelis Technologies, Inc., and Mattson Technology, Inc.) to our peer group for the 2016 fiscal year analysis that reflect the criteria described above. Our peer group companies considered for compensation for the 2016 fiscal year are listed below.

#### 2016 Fiscal Year Peer Group Companies

Axcelis Technologies, Inc.	Form Factor, Inc.
Cascade Microtech, Inc.	Mattson Technology, Inc.
Cohu, Inc.	Maxwell Technologies Inc.
Electro Scientific Industries, Inc.	Rudolph Technologies Inc.
Exar Corporation	Ultratech, Inc.
FARO Technologies, Inc.	

The Compensation Committee selected companies above because they operate in our industry or similar industries, are comparable to Nanometrics based on both survey data and proxy data, revenues (in the range of \$90 million to \$370 million), and/or market capitalization (in the range of \$100 million to \$1.0 billion). Compensia gathered data with respect to base salary, target bonus awards and all equity awards, including stock options, restricted stock units (“RSUs”) and performance based equity. We generally do not gather data regarding employee benefits such as 401(k) or health care coverage normally available to broad groups of employees.

While the market data may identify a certain percentile of the market in which we operate with regard to base salary, bonus or long-term incentives, the Compensation Committee did not target any specific percentile but instead looked at each element as compared to the total targeted cash package and the various components, in light of the desired results, internal equity and the information provided, and then decided if a change to compensation was warranted or not. The Compensation Committee also consulted with our Chief Executive Officer with respect to the appropriate compensation for the executives who reported to him, including: Mr. Andreson, our Chief Financial Officer; Dr. Borowicz, our Executive Vice President, Business Operations; Ms. Taylor, our General Counsel; and Mr. Kocher, our Senior Vice President, Commercial Operations. The Chief Executive Officer reviewed the experience and qualifications, and performance of our executives using the elements and framework described under “2016 Executive Compensation Components” below, and made recommendations to the Compensation Committee about the structure of the overall compensation program and individual compensation arrangements. This framework provided a guide for the Compensation Committee’s deliberations and recommendations regarding proposals for base salary, bonus opportunities and long-term equity incentive awards for each executive position. The Compensation Committee considered those factors that are controllable by management such as expenses and cash, account penetration and long-term stockholder value delivery and others that are less within management control such as revenue, which is subject to the short-term industry cycles and the timing of customer capital spending cycles. The Compensation Committee did not apply formulas or assign specific mathematical weights to the peer group data or any of the factors

or elements of compensation discussed above, but rather exercised its business judgment and discretion to make a subjective determination of both the amounts of compensation as well as the distribution of compensation among the various components, after considering all the measures collectively. The Compensation Committee then concluded based on the framework outlined above to approve an appropriate compensation package for each executive.

#### 2016 Executive Compensation Components

For the 2016 fiscal year, the principal components of compensation for our named executive officers, Drs. Stultz and Borowicz, Messrs. Andreson and Kocher, and Ms. Taylor, were:

• Base salary;

• Bonus;

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• Equity awards; and  
• Retirement and other benefits.

The Compensation Committee has chosen these components because it believes that each supports achievement of one or more of our compensation objectives, and that together they will be effective in this regard. The use of each compensation component is based on a determination by the Compensation Committee of the importance of each compensation objective in supporting our business and talent strategies. These components are commonly used for executives at companies within our peer group and, therefore, the Compensation Committee finds these to be appropriate in our talent retention strategy. The Compensation Committee's determination varies for each executive officer depending on a number of factors, including but not limited to, scope of his or her responsibilities, leadership skills and values, and individual performance. The Compensation Committee did not apply formulas or assign specific mathematical weights to any of these factors, but rather exercised its business judgment and discretion to make a subjective determination after considering all the measures collectively.

#### Base Salary

Base salaries serve as the foundation of Nanometrics' compensation program. Other executive compensation elements, including annual short-term cash incentives and long-term equity incentives, the Compensation Committee derives by weighing them against base salary. Nanometrics provides named executive officers with base salaries to compensate them for services rendered during the fiscal year and sets base salaries at levels which the Compensation Committee believes will effectively attract and retain top talent. The Compensation Committee determines base salaries for each named executive officer based on his or her experience, position and responsibility, as well as the contribution that he or she brings to Nanometrics through performance. During its annual review of base salaries for executives, the Compensation Committee primarily considers:

- the salaries of executive officers in similar positions at our peer group companies as discussed in the above section titled "Philosophy and Objectives Applied";
- our financial performance over the past year based upon the ability to achieve Board-approved financial metrics including revenue targets, operating income targets and other operating results metrics; and
- the individual performance of each named executive officer, and his or her duties and areas of responsibility, on a subjective basis, which may include, among other things: span of control; ability to influence, manage and produce results that increase the profitability of Nanometrics; and ability to streamline and create efficiencies in the organization.

The Compensation Committee considers salary levels annually as part of our performance review process as well as upon a promotion or other change in job responsibility. The Compensation Committee reviews and determines salaries after reviewing salary data supplied by Compensia, including data regarding our peer comparison group, as well as consideration of the compensation for our executives on a company-wide basis, based on their relative duties and responsibilities and the recommendations of our Chief Executive Officer as it relates to the executives who report to him. Stock price performance has not been a direct factor in determining annual base salary compensation because the price of our common stock is subject to a variety of factors outside of our control. The Compensation Committee also considered comparisons of peer group compensation to peer group performance provided by Compensia. The Compensation Committee did not apply formulas or assign specific mathematical weights to any of these factors, but rather exercised its business judgment and discretion to make a subjective determination regarding each executive's base salary after considering all of these measures collectively.

For fiscal year 2016, based on all of the data considered, the Compensation Committee exercised its business judgment and discretion to make a subjective determination regarding each named executive officer's 2016 base salary as set forth in the table below. Mr. Kocher was promoted in 2016, and therefore his salary for 2016 is not compared to his salary in 2015 in the table below.

Named Executive Officer	Year-Over-Year	
	Annual Base Salary	Percentage Increase
	Approved for Fiscal	Represented by Fiscal
	Year 2016	Year 2015 Base Salary
Timothy J. Stultz, Ph.D.	\$ 500,000	1.3%
President, Chief Executive Officer and Director		
Jeffrey Andreson	\$ 340,000	3.0%
Chief Financial Officer		
S. Mark Borowicz, Ph.D.	\$ 305,000	4.4%
Executive Vice President, Business Operations		
Rollin Kocher <sup>(1)</sup>	\$ 271,889	n/a
Senior Vice President, Commercial Operations		
Janet Taylor	\$ 276,000	2.2%
General Counsel		

(1) Mr. Kocher became our SVP Commercial Operations in September 2016.

#### Bonus

The Compensation Committee views cash bonuses as part of its performance-based compensation program designed to align the recipient's interests with our annual goals and objectives and our stockholders' interests. At our 2012 annual meeting of stockholders, the stockholders approved the Executive Performance Bonus Plan (the "Plan"). Within the parameters of the Plan, the Compensation Committee established the 2016 Executive Performance Bonus Program (the "2016 Bonus Program"). The 2016 Bonus Program is intended to motivate senior executives to achieve short-term and long-term corporate objectives relating to the performance of Nanometrics or one of its business units as established by the Compensation Committee of the Board of Directors and to reward them when those objectives are achieved, thereby tying performance to stockholder value. Bonuses would be triggered upon our achievement of target metrics determined by the Compensation Committee.



As part of the 2016 Bonus Program, the Compensation Committee established the following target bonus opportunities:

	Target Bonus Opportunity
Named Executive Officer <sup>(1)</sup> (as a % of annual base salary)	
Timothy J. Stultz, Ph.D.	100%
Jeffrey Andreson	60%
S. Mark Borowicz, Ph.D.	60%
Rollin Kocher	30%
Janet Taylor	45%

The Compensation Committee reviews and approves target bonus opportunities for each executive officer based on market data and each executive officer's relative duties and responsibilities.

For Dr. Stultz, Mr. Andreson, Dr. Borowicz and Ms. Taylor 100% of the target bonus opportunity was based upon overall company financial performance objectives recommended by the CEO and approved by the Compensation Committee. For Mr. Kocher, 50% of the target bonus opportunity was based on overall company financial performance objectives recommended by the CEO and approved by the Compensation Committee, while the remaining 50% was based on individual management objectives determined by the CEO prior to the time Mr. Kocher became an executive officer. In addition, Mr. Kocher received commissions based on recognized revenue from sale of products, upgrades and service contracts.

The maximum award that an executive could receive under the 2016 Bonus Program was two times the target bonus opportunity. Achievement of the bonus opportunity tied to the overall company performance for the 2016 Bonus Program was determined based on annual Revenues and Non-GAAP Operating Margin. The 2016 Bonus Program provided that Annual Revenue of

\$200 million and Non-GAAP Operating Margin of 10% resulted in funding at 100% of the company performance component of Total Target Bonus. The formula for determining the actual company performance component was the product of (i) achieved Non-GAAP Operating Margin divided by 10% and (ii) \$200 million in annual Revenues divided by actual annual Revenues achieved. The company performance factor would be zero when Non-GAAP Operating Margin is less than or equal to 0%. For the 2016 Bonus Program, Non-GAAP Operating Margin was defined as Operating Income/(Loss) as reported in accordance with generally accepted accounting principles in the United States, plus amortization of intangible assets, and any unusual charges, such as restructurings, litigation or acquisition charges, divided by Annual Revenues.

For Mr. Kocher, a portion of his bonus was tied to the achievement of individual management objectives. His individual management objectives related to (i) achieving forecasted sales and service revenue, (ii) improved operating efficiencies, (iii) accurately forecasting revenue, and (iv) other organization-wide initiatives. For fiscal year 2016, based on achieved Revenues and Non-GAAP Operating Income, the Compensation Committee approved the following bonus amounts for the named executive officers:

	Approved Bonus under
Named Executive Officer	2016 Bonus Program
Timothy J. Stultz, Ph.D.	\$ 625,000
Jeffrey Andreson	\$ 255,000
S. Mark Borowicz, Ph.D.	\$ 228,750
Rollin Kocher <sup>(1)</sup>	\$ 101,959
Janet Taylor	\$ 155,250

(1)Mr. Kocher became our SVP Commercial Operations in September 2016. He was also eligible for Commission Plan in the amount of \$237,514.

### Long-Term Incentive Compensation

The Compensation Committee believes that equity compensation plans are an essential tool to link the long-term interests of Nanometrics' stockholders and our employees, particularly our executive officers, and serve to motivate executives to make decisions that will, in the long run, optimize returns to our stockholders. Equity compensation plans also enable us to provide an opportunity for increased equity ownership by executives, thereby increasing the link between the incentives of our executives and the interests of our stockholders, and maintain competitive levels of total compensation. Each year the Compensation Committee considers incentive and retention needs, market competitiveness and industry and business conditions to make its subjective determination of the appropriate balance of RSUs, which provide a more predictable value; and Performance Stock Units, or PSUs, which provide predictable value to the extent pre-defined performance metrics are achieved. The company has not granted stock options since 2014. The Compensation Committee considered both the broader market environment and the individual equity profile of each executive in awarding all Named Executive Officers RSUs for 2016, and awarding the CEO PSUs for 2016.

Restricted Stock Unit Grants. All of the executives received RSU awards during the 2016 fiscal year. The Compensation Committee believes that RSUs, which increase in value as the market price of our common stock increases, both encourage our executives to work toward the longer term goal of creating stockholder value and provide retention value. RSUs align the interests of our executives to the interests of our stockholders because an executive that holds RSUs is exposed to the same market risks to which our stockholders are exposed. The Compensation Committee approved RSU award levels for 2016 based on an analysis of peer group data related to the size of equity awards as described under our section “Philosophy and Objectives Applied” above. The Compensation Committee did not benchmark to a specific target percentile, but instead considered proposed RSU awards in the context of each executive’s cash and total compensation package. In addition, the Compensation Committee considered other factors when determining each executive’s RSU award, including: the level of resulting alignment with the interests of our stockholders; such executive’s position within the organization and the appropriate level of equity compensation for such position relative to others in the organization’s hierarchy; such executive’s contributions to our financial, operational and general performance; our stock price; and the value of such awards based on the company’s current stock price. The Compensation Committee did not apply formulas or assign specific mathematical weights to any of these factors, but rather exercised its business judgment and discretion to make a subjective determination regarding whether to grant, and the size of grants of RSUs to each executive.

Performance Stock Unit Grants. Our CEO received his 2016 equity value 50% in time-based RSUs and 50% in performance-based RSUs (“PSUs”). The 2016 PSUs are earned based on Nanometrics’ stock price performance relative to the Top 30 companies in the Philadelphia Stock Exchange Semiconductor Index over a one, two and three-year performance period. To earn the target number of shares, Nanometrics’ stock price performance must be at the 50th percentile of the Index; for stock price performance at or above the 75th percentile, the CEO earns 150% of the target shares (maximum payout is 150% of target). If Nanometrics’ stock price performance for any period is negative, the number of shares earned is capped at target, regardless of performance relative to the

Index. The Compensation Committee determined the PSU award level for our CEO in 2016 based on an analysis of peer group data related to the size of equity awards as described under our section “Philosophy and Objectives Applied” above.

Although historically the Compensation Committee granted PSUs only to our CEO, in 2017, the Compensation Committee determined to grant PSUs to our CEO as well as to our CFO, Mr. Andreson, and to Dr. Borowicz and Mr. Kocher.

Our Compensation Committee grants equity awards under our 2005 Equity Incentive Plan to the named executive officers and other employees as incentive compensation. The Compensation Committee meeting schedule is determined several months in advance, and, therefore, proximity of any award date to a material news announcement or a change in our stock price, if any, is coincidental. We do not backdate equity awards or make equity awards retroactively. In addition, we do not coordinate our equity grants to precede announcements of favorable information or follow announcements of unfavorable information. Equity awards are priced using the closing market price of the common stock on the date of grant.

#### Other Elements of Compensation

All Nanometrics employees in the United States, including our named executive officers, are eligible to participate in our 401(k) plan, medical, dental and vision insurance, employee stock purchase plan, as well as our life and disability insurance policy. Nanometrics’ 401(k) Plan and other generally available benefits programs allow us to remain competitive for employee talent, and we believe that the availability of these benefits programs generally enhances employee productivity and loyalty to Nanometrics. The main objectives of Nanometrics’ benefits programs are to give employees access to quality healthcare, financial protection from unforeseen events, assistance in achieving retirement financial goals, and enhanced health and productivity, all in full compliance with applicable legal requirements. These generally available benefits typically do not specifically factor into decisions regarding an individual named executive officer’s total compensation or equity award package.

#### Perquisites

Nanometrics provides certain named executive officers with a limited number of perquisites that the Compensation Committee believes are reasonable and consistent with our overall compensation program. Although the Compensation Committee seeks the advice of the human resources department on general market competitiveness for these benefits, it does not use a formal benchmarking process. The aggregate incremental costs to Nanometrics of these perquisites are included in the Summary Compensation Table in the “All Other Compensation” column. Dr. Stultz receives a car allowance. All named executive officers are eligible to participate in an Executive Healthcare Reimbursement plan that provides for reimbursement of usual and customary costs that may not be covered under the medical, dental and eye care plans available to all other Nanometrics employees; actual amounts reimbursed are included in the Summary Compensation Table as “All Other Compensation.”

#### Severance Benefits

The Compensation Committee considers maintaining a stable and effective management team to be essential to protecting and enhancing the best interests of Nanometrics and its stockholders. Accordingly, the Compensation Committee has taken steps to encourage the continued attention, dedication and continuity of members of our management to their assigned duties without the distraction that may arise from the potential termination of employment. Specifically, we have entered into agreements with our named executive officers providing for severance payments and benefits, consisting of cash severance, accelerated vesting of equity awards and continued health care benefits, upon a termination of employment without cause or resignation for good reason in connection with a “change

in control” of Nanometrics, as described in greater detail below in the section titled “Employment Contracts and Termination of Employment and Change-in-Control Arrangements.” Nanometrics entered into these agreements with Dr. Stultz in 2010, and with Mr. Andreson in 2014. In May 2015, these agreements were superseded and replaced with new agreements, which Nanometrics entered into with Dr. Stultz, Mr. Andreson and Dr. Borowicz, and with Ms. Taylor in July 2015 when she was hired. Nanometrics entered into such an agreement with Mr. Kocher in 2016 when he became an executive officer.

When entering into these agreements, the Compensation Committee analyzed data and suggestions from Compensia in 2014 as well as our human resources department. The Compensation Committee then exercised its business judgment and discretion to make a subjective determination after considering this information.

After considering industry practices, the Compensation Committee determined that our severance and benefits agreements are necessary and appropriate in substance and scope to provide competitive compensation to the types of individuals that Nanometrics desires to attract, hire and retain. The Compensation Committee also believes that these agreements are consistent with our overall compensation philosophy. The Compensation Committee periodically monitors industry practice in this area to ensure that these

agreements remain consistent with industry practice and our overall compensation philosophy of offering competitive compensation to preserve our ability to attract and retain key executives.

#### Tax and Accounting Implications

As part of its role, the Compensation Committee reviews and considers both tax and accounting related implications as they apply and as they evolve.

As part of its role, the Compensation Committee reviews and considers the deductibility of executive compensation under Section 162(m) of the Internal Revenue Code, which provides that we may not deduct compensation of more than \$1,000,000 that is paid to certain executive officers, unless certain exemption requirements are met. Exemptions to this deductibility limit may be made for various forms of “performance-based” compensation. However, in certain situations, the Compensation Committee may approve compensation that will not meet these requirements to ensure competitive levels of total compensation for our executive officers.

Section 4999 and Section 280G of the Internal Revenue Code provide that executives could be subject to additional taxes if they receive payments or benefits that exceed certain limits in connection with a change in control of Nanometrics and that Nanometrics could lose an income tax deduction for such payments. We have not provided any executive with a tax “gross up” or other reimbursement for tax amounts the executive might be required to pay under Section 4999 or Section 280G of the Internal Revenue Code as the Compensation Committee determined that this was not consistent with best practices.

Section 409A of the Internal Revenue Code imposes additional taxes and interest on underpayments in the event that an executive defers compensation under a compensation plan that does not meet the requirements of Section 409A. We believe that we are operating in good faith compliance with Section 409A and have structured our compensation and benefits programs and individual arrangements in a manner intended to comply with the requirements thereof.

#### Risks Associated With Compensation Plans

In 2016, the Compensation Committee determined that our compensation policies and practices for our employees are not reasonably likely to cause employees to take risks that would have a material adverse effect on the company.

#### Equity Ownership Guidelines

We have a stock ownership policy that establishes, for our executive officers, guidelines for minimum levels of stock ownership in the company by 2019 or within five years of their hire date or promotion date, whichever is later. The stock ownership guidelines are, for our Chief Executive Officer, ownership of stock with a value equal to three times his annual base salary, and for each other executive officer, ownership of stock with a value equal to his or her annual base salary.

#### Results of 2016 Shareholder Advisory Vote to Approve Executive Compensation

At our 2013, 2014, 2015 and 2016 annual meetings of stockholders, we requested our stockholders to approve, on an advisory (non-binding) basis, the compensation paid to our executive officers as reported in the proxy statements for those annual meetings. Our stockholders expressed substantial support for our executive compensation, with approximately 97.8%, 96.1%, 95.1% and 92.7%, respectively, of the shares present and entitled to vote voting for approval of the “say-on-pay” advisory vote approving our executive compensation. Because of the high level of support expressed by our stockholders for the executive compensation, the Compensation Committee has continued to apply a similar approach for executive compensation decisions and policies.

## Clawback Policy

We have established a clawback policy. This policy provides that in the event of a material restatement of our consolidated financial statements resulting from fraud or intentional misconduct by any Section 16 officer who has either erroneously been awarded or paid a greater amount of incentive compensation than he or she would have received had the financial statements been fairly stated, the Board or its designated committee has the discretion to direct that the company either recoup or cancel payment, though not forced, of all or a portion of the excess of performance-based cash or equity compensation to the Section 16 officer(s). This clawback policy is effective for compensation awarded or paid after implementation of the policy and applies to current Section 16 officers as well as those who terminate after the clawback program has been approved by the Board. The covered period is the three-year period preceding the effective date for which it is determined that a restatement is required.

Insider Trading Policy

We have an insider trading policy that, in addition to prohibiting insider trading, has provisions prohibiting margining the company's securities, engaging in short sales of securities not owned, and trading in derivative securities.

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## 2016 Summary Compensation

The following table sets forth compensation information for (i) our Chief Executive Officer, (ii) our Chief Financial Officer, and (iii) each of our other three highest compensated executive officers during fiscal 2016, all of whom are collectively referred to as the “named executive officers.”

## Summary Compensation Table

## Fiscal Year 2016

	Year	Salary (\$)	Stock Awards <sup>(1),(2)</sup>	Non-Equity Incentive Plan Compensation <sup>(3)</sup>	All Other Compensation <sup>(4)</sup>	Total (\$)
Timothy J. Stultz, Ph.D. President, Chief Executive Officer and	2016	\$498,343	\$1,170,482	\$625,000	\$28,205	\$2,322,030
	2015	\$493,204	\$1,817,800	\$468,702	\$26,002	\$2,805,708
	2014	\$479,000	\$1,596,300	\$593,960	\$27,767	\$2,697,027
Director						
Jeffrey Andreson <sup>(5)</sup> Chief Financial Officer	2016	\$337,500	\$357,210	\$255,000	\$7,229	\$956,939
	2015	\$330,000	\$179,200	\$188,100	\$5,830	\$703,130
	2014	\$86,308	\$578,000	\$75,000	\$—	\$739,308
Janet Taylor <sup>(6)</sup> General Counsel	2016	\$274,500	\$132,300	\$155,250	\$7,218	\$569,268
	2015	\$124,615	\$276,800	\$60,995	\$5,460	\$467,870
S. Mark Borowicz, Ph.D. <sup>(7)</sup> Executive VP, Business Operations	2016	\$301,750	\$330,750	\$228,750	\$4,530	\$865,780
	2015	\$291,871	\$161,280	\$151,110	\$5,545	\$609,806
Rollin Kocher <sup>(8)</sup> Sr. VP, Commercial Operations	2016	\$269,909	\$244,156	\$339,473	\$4,800	\$858,338

(1) Amounts shown do not reflect compensation actually received by the named executive officer. Instead, the amounts shown are the aggregate grant date fair value of equity awards granted for financial statement reporting purposes in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 718. The assumptions used to calculate the value of the restricted stock units ("RSUs") and/or performance stock units ("PSUs") are set forth under Note 13 of the Notes to Consolidated Financial Statements included in Nanometrics' Annual Report on Form 10-K for the fiscal year ended December 31, 2016, filed with the SEC on March 3, 2017. The amount with respect to PSUs is also based on the probable outcome of the satisfaction of the performance conditions; the grant date fair value assuming satisfaction of the performance conditions is \$575,132.

(2) For fiscal year 2016, the Board of Directors awarded on February 22, 2016: Dr. Stultz RSUs to acquire 45,000 shares, and PSUs to acquire 67,500 shares; Mr. Andreson RSUs to acquire 27,000 shares; Ms. Taylor RSUs to acquire 10,000 shares; and Dr. Borowicz RSUs to acquire 25,000 shares. The grant date fair value of these grants was \$13.23 per share. Mr. Kocher received an award of 12,987 RSUs at the grant date value of \$18.80 per share on

May 27, 2016. All RSUs vest annually over three years from grant date, and all PSUs vest annually over three years on February 22 of each year subject to attainment of certain stock performance metrics.

- (3) Amounts reflected for each fiscal year are those earned, but not paid until the following fiscal year, under our executive performance bonus programs and in the case of Mr. Kocher, \$237,514 in sales commissions.
- (4) Fiscal 2016 amounts represent additional compensation for the named executive officers as follows: Dr. Stultz received reimbursements under our Executive Health Care Plan in the amount of \$9,005, an employer 401(k) match in the amount of \$4,800, and a car allowance in the amount of \$14,400; Mr. Andreson received reimbursements under our Executive Health Care Plan \$2,504 and an employer 401(k) match of \$4,725; Ms. Taylor received reimbursements under our Executive Health Care Plan in the amount of \$2,418 and an employer 401(k) match of \$4,800; Dr. Borowicz received reimbursements under our Executive Health Care Plan in the amount of \$930 and an employer 401(k) match of \$3,600; and Mr. Kocher received an employer 401(k) match of \$4,800.
- (5) Mr. Andreson joined Nanometrics in September 2014.
- (6) Ms. Taylor joined Nanometrics in July 2015.
- (7) Dr. Borowicz became an executive officer in February 2015.
- (8) Mr. Kocher became an executive officer in September 2016.

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## 2016 Grants of Plan-Based Awards

The following table sets forth information with respect to grants of plan-based awards during the 2016 fiscal year that ended December 31, 2016, to each of the named executive officers.

## Grants of Plan-Based Awards For Fiscal Year 2016

Name	Estimated Future Payouts				All Other Stock	
	Under Non-Equity Incentive Plan Awards <sup>(1)</sup>				Awards:	Grant Date Fair
	Grant	Threshold	Target	Maximum	Number of	value Of Stock And
Date	(\$)	(\$)	(\$)	Shares of Stock	Options Awards	(\$) <sup>(4)</sup>
Timothy J. Stultz, Ph.D.	2/22/2016	\$ —	\$ 500,000	\$ 1,000,000		
	2/22/2016 <sup>(2)</sup>				45,000	\$ 595,350
	2/22/2016 <sup>(3)</sup>				67,500	\$ 575,132
Jeffrey Andreson	2/22/2016	\$ —	\$ 204,000	\$ 408,000		
	2/22/2016 <sup>(2)</sup>				27,000	\$ 357,210
Janet Taylor	2/22/2016	\$ —	\$ 124,200	\$ 248,400		
	2/22/2016 <sup>(2)</sup>				10,000	\$ 132,300
S. Mark Borowicz, Ph.D.	2/22/2016	\$ —	\$ 183,000	\$ 366,000		
	2/22/2016 <sup>(2)</sup>				25,000	\$ 330,750
Rollin Kocher	2/22/2016	\$ —	\$ 81,557	\$ 163,114		
	5/27/2016 <sup>(2)</sup>				12,987	\$ 244,156

(1) Reflects awards under our 2016 Executive Performance Bonus Plan as described under "Compensation Discussion and Analysis".

(2) Restricted stock units vest in equal annual installments over a three-year period.

(3) PSUs vest in equal annual installment over a three-year period subject to achievement of certain metrics.

(4) Amounts shown do not reflect compensation actually received by the named executive officer. Instead, the amounts shown are the aggregate grant date fair value of equity awards granted for financial statement reporting purposes, as determined pursuant to ASC Topic 718. The assumptions used to calculate the value of the RSUs and PSUs are set forth under Note 13 of the Notes to Consolidated Financial Statements included in Nanometrics' Annual Report on Form 10-K for the fiscal year ended December 31, 2016, filed with the SEC on March 3, 2017. The amount with respect to PSUs (granted to Dr. Stultz in 2016) is also based on the probable outcome of the satisfaction of the performance conditions: the grant date fair value assuming satisfaction of the performance conditions is \$575,132.



## Narrative Disclosure to Summary Compensation Table and Grants of Plan-Based Awards Table

Our 401(k) savings plan allows employees to contribute up to 100% of their annual compensation to the plan on a pre-tax or after-tax basis, limited to a maximum annual amount as set periodically by the Internal Revenue Service. The plan provides a 20% match by Nanometrics of all employee contributions.

In the 2016 fiscal year, all corporate officers and non-employee directors were eligible to participate in a Nanometrics self-funded Executive Reimbursement Plan (currently administered by Benefit and Risk Management Services). This plan is intended to supplement our basic health plan by reimbursing expenses that are not covered by our health plan. Dr. Stultz is also entitled to a car allowance. Attributed costs of the perquisites described above for the named executive officers for the fiscal year ended December 31, 2016, are included in the "Summary Compensation Table." All such perquisites are taxable to the executive and included as a portion of such executive's wages.

## Outstanding Equity Awards at Fiscal 2016 Year End

The following table sets forth the number of shares covered by both stock options and stock awards held by each of the named executive officers at the end of the fiscal year which ended December 31, 2016.

Name	Grant Date	Option Awards				Stock Awards	
		Exercisable	Unexercisable	Price (\$)	Date	Number of	Market Value of
			Unexercised Options (#)			Shares or Units	Shares or Units
				Exercise	Expiration	of Stock that	of Stock That
						have not	have Not Vested
						Vested (#)	(\$) <sup>(1)</sup>
Timothy J. Stultz, Ph.D.	2/22/2016 <sup>(6)</sup>					67,500	\$1,691,550
	2/22/2016 <sup>(2)</sup>					45,000	\$1,127,700
	3/18/2015 <sup>(5)</sup>					40,000	\$1,002,400
	2/24/2015 <sup>(2)</sup>					26,666	\$668,250
	3/6/2014 <sup>(2)</sup>					28,333	\$710,025
	3/12/2013 <sup>(3)</sup>	56,250	—	\$15.85	03/12/2020		
	2/17/2012 <sup>(3)</sup>	50,000	—	\$19.03	02/17/2019		
	11/16/2010 <sup>(3)</sup>	114,166	—	\$11.37	11/16/2017		
Jeffrey Andreson	2/22/2016 <sup>(2)</sup>					27,000	\$676,620
	2/24/2015 <sup>(2)</sup>					6,666	\$167,050
	11/9/2014 <sup>(4)</sup>					13,333	\$334,125
Janet Taylor	2/22/2016 <sup>(2)</sup>					10,000	\$250,600
	8/28/2015 <sup>(2)</sup>					13,333	\$334,125
S. Mark Borowicz, Ph.D.	2/22/2016 <sup>(2)</sup>					25,000	\$626,500

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	2/24/2015 <sup>(2)</sup>			6,000	\$150,360
	5/19/2014 <sup>(2)</sup>			2,000	\$50,120
	5/20/2013 <sup>(3)</sup> —	625	\$14.34	5/20/2013	
Rollin Kocher	5/27/2016 <sup>(2)</sup>			12,987	\$325,454
	5/29/2015 <sup>(2)</sup>			4,760	\$119,286
	5/20/2013 <sup>(3)</sup> —	938	\$14.34	5/20/2013	

(1) The closing market price of Nanometrics common stock on December 30, 2016, the last trading day of our 2016 fiscal year, was \$25.06 per share.

(2) Restricted stock units vest annually over three years on each anniversary of the grant date.

(3) Options vest in equal monthly installments over a total of four years and have a term of seven years.

(4) Restricted stock units vest annually over three years on each anniversary of Mr. Andreson's hire date.

(5) Performance stock units vest annually, subject to stock performance metrics, over three years on each anniversary of February 24, 2015.

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(6) Performance stock units vest annually, subject to stock performance metrics, over three years on each anniversary of February 22, 2016.

#### Option Exercises and Stock Vested

The following table provides, on an aggregate basis, the value realized upon the exercise of stock options and vesting of stock awards, by the named executive officers during the 2016 fiscal year that ended December 31, 2016.

#### Option Exercises and Stock Vested For Fiscal 2016

Name	Option Awards		Stock Awards	
	Number of		Number of	
	Shares Acquired	Value Realized	Shares Acquired	Value Realized on
	On Exercise (#)	on Exercise (\$) <sup>(1)</sup>	On Vesting (#)	Vesting (\$) <sup>(2)</sup>
Timothy J. Stultz, Ph.D.	45,834	\$853,429	75,000	\$1,068,483
Jeffrey Andreson	—	—	16,667	\$345,668
Janet Taylor	—	—	6,667	139,274
S. Mark Borowicz, Ph.D.	6,875	\$129,368	9,666	\$142,037
Rollin Kocher	14,062	\$287,869	5,713	\$92,606

(1) The value realized on exercise is calculated by multiplying the number of shares shown in the table by the excess of the market value of the shares on the vesting date and the exercise price.

(2) The value realized on vesting is calculated by multiplying the number of shares shown in the table by the market value of the shares on the vesting date.

## Employment Contracts and Termination of Employment and Change in Control Arrangements

In September 2014, Nanometrics entered into an employment agreement with Mr. Jeffrey Andreson setting forth his then-effective salary, bonus and equity grants, and severance benefits; Mr. Andreson's current compensation is discussed above, and his current severance benefits are discussed below.

Nanometrics entered into severance benefits and change in control severance benefits agreements (the "Severance Agreements") with each of Dr. Timothy Stultz, Jeffrey Andreson, and Dr. S. Mark Borowicz in May 2015, with Janet Taylor in July 2015, and with Rollin Kocher in November 2016. The general severance benefits will become payable under the Severance Agreements in the event of the executive officer's termination without cause or resignation for good reason which occurs other than on or within 12 months following a qualifying change in control event. With respect to Dr. Stultz, Mr. Andreson and Ms. Taylor, the general severance benefits consist of 12 months of base salary continuation and COBRA premium benefits, and with respect to Mr. Stultz an additional lump sum payment of 100% of his annual target bonus. With respect to Dr. Borowicz and Mr. Kocher, the general severance benefits consist of six months of base salary continuation and COBRA premium benefits.

The change in control severance benefits will become payable under the severance agreements in the event that (i) a qualifying change in control event occurs and (ii) the executive's termination without cause or resignation for good reason occurs within the period commencing on and ending 12 months following the qualifying change in control event. With respect to Dr. Stultz, the change in control severance benefits consist of (i) a lump sum payment of 18 months' base salary and 100% of his annual target bonus, (ii) 18 months of COBRA premium benefits, and (iii) full acceleration of the vesting and exercisability of all then outstanding equity awards will generally apply. With respect to Mr. Andreson, Ms. Taylor, Dr. Borowicz and Mr. Kocher, the change in control severance benefits consist of (i) a lump sum payment of 12 months' base salary and 100% of the annual target bonus, (ii) 12 months of COBRA premium benefits, and (iii) full acceleration of the vesting and exercisability of all then outstanding equity awards will generally apply.

For purposes of the severance agreements, a qualifying change of control event generally includes any of the following events: (i) an acquisition by any person, entity or group of the beneficial ownership of securities of Nanometrics representing more than fifty percent of the total voting power of Nanometrics' then outstanding securities; (ii) a change in a majority of the members constituting the Board within a two year period that is not approved by a majority of the incumbent Board members, (iii) a merger or consolidation involving Nanometrics and, immediately after the consummation of such transaction, the stockholders of Nanometrics immediately prior thereto do not own, directly or indirectly, outstanding voting securities representing more than fifty percent of the combined outstanding voting power of the surviving or resulting entity; and (iv) a sale, lease or other disposition of all or substantially all of the assets of Nanometrics.

Payment of general severance benefits or change in control severance benefits, as applicable, is in all cases conditioned upon the executive officer providing a timely and effective release of claims against Nanometrics and the



executive officer's ongoing compliance with the non-competition, non-solicitation and other requirements set forth in the severance agreements.

In addition, under the terms of our 2005 Equity Incentive Plan, in the event of a merger or change in control in which outstanding stock options or restricted stock units held by the named executive officers are not assumed or substituted with stock options or restricted stock units of the surviving company, such awards will vest and become fully exercisable or payable.

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## Termination of Employment and Change-in-Control Potential Payouts

The table below estimates amounts payable upon a separation as if the individuals were separated on December 31, 2016, which was the last day of our 2016 fiscal year.

		Not in connection with	In Connection with
		Change in Control	Change in Control Termination Without Cause
		Termination Without	For Good Reason Or Due to
		Cause/Good Reason (\$)	Disability or Death (\$)
Timothy J. Stultz, Ph.D.	Severance pay	\$500,000	\$750,000
	Equity vesting acceleration <sup>(1)</sup>	—	3,250,537
	Bonus	500,000	500,000
	Health care benefits continuation	34,304	51,456
		\$1,034,304	\$4,551,993
Jeffrey Andreson	Severance pay <sup>(2)</sup>	\$340,000	\$340,000
	Equity vesting acceleration <sup>(1)</sup>	—	1,177,795
	Bonus	—	204,000
	Health care benefits continuation	25,362	25,362
		\$365,362	\$1,747,157
Janet Taylor	Severance pay	\$276,000	\$276,000
	Equity vesting acceleration <sup>(1)</sup>	—	584,725
	Bonus	—	124,200
	Health care benefits continuation	22,935	22,935
		\$298,935	\$1,007,860
S. Mark Borowicz, Ph.D.	Severance pay	\$152,500	\$305,000
	Equity vesting acceleration <sup>(1)</sup>	—	833,680
	Bonus	—	183,000
	Health care benefits continuation	21,558	43,116
		\$174,058	\$1,364,796
Rollin Kocher	Severance pay	\$135,945	\$271,889
	Equity vesting acceleration <sup>(1)</sup>	—	454,795
	Bonus	—	81,567
	Health care benefits continuation	21,558	43,116

\$ 157,502      \$ 851,367

(1) Represents the estimated potential incremental value of additional stock options and restricted stock units that would have vested for our named executive officers as of December 31, 2016. For stock options, the value is based on the difference between the aggregate exercise price of all accelerated options and the aggregate market value of the underlying shares as of December 31, 2016, calculated based on the closing market price of our stock on December 30, 2016, the last trading day of our fiscal year \$25.06 per share. Accelerated restricted stock unit award value is calculated by multiplying the number of accelerated shares by the closing price of our stock on December 30, 2016, \$25.06 per share.

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## COMPENSATION COMMITTEE REPORT<sup>1</sup>

The Compensation Committee has reviewed and discussed with management the Compensation Discussion and Analysis contained in this Proxy Statement. Based on this review and discussion, the Compensation Committee has recommended to the Board of Directors that the Compensation Discussion and Analysis be included in this Proxy Statement and incorporated into Nanometrics Incorporated's Annual Report on Form 10-K for the fiscal year ended December 31, 2016.

The Compensation Committee

Edward J. Brown Jr., Chairman  
J. Thomas Bentley  
Christine A. Tsingos

<sup>1</sup>The material in this report is not "soliciting material," is furnished to, but not deemed "filed" with, the Securities and Exchange Commission and is not deemed to be incorporated by reference in any filing of the company under the Securities Act or the Exchange Act, other than the company's Annual Report on Form 10 K, where it shall be deemed to be "furnished," whether made before or after the date hereof and irrespective of any general incorporation language in any such filing.

## COMPENSATION OF DIRECTORS

During the 2016 fiscal year, non-employee directors received an annual retainer fee of \$50,000. In addition, the Chairman of the Board, Audit Committee Chairman, Compensation Committee Chairman and Nominating and Governance Committee Chairman received an incremental \$30,000, \$20,000, \$20,000 and \$10,000 annual retainer, respectively, for serving in such capacities. Committee members, other than the chairpersons, received an incremental \$10,000 annual retainer for service on the Audit or Compensation Committee and an incremental \$7,500 annual retainer for service on the Nominating and Governance Committee. All retainer fees are paid annually, as of the date of our annual stockholders meeting, and in advance of the provision of services to which the retainer relates.

Non-employee directors are also eligible to participate in our 2005 Equity Incentive Plan, and in fiscal year 2016, each such director received equity incentives, issued in restricted stock units, valued at \$100,000. We calculated the value of such equity incentives using the 30-day average of the closing market price of our stock on the NASDAQ Stock Market as of the date of our annual stockholders meeting. These awards vest on the earlier of the first anniversary date of the grant or the date of the next annual meeting of stockholders.

Any new non-employee director will be eligible to receive restricted stock units valued at \$100,000 pro-rated to reflect the amount of time served before the next annual meeting of stockholders.

Non-employee directors are eligible to participate in Nanometrics' self-funded Executive Reimbursement Plan, which is intended to supplement our basic health plan by reimbursing expenses that are not covered by our health plan. All such reimbursements are considered taxable income to our non-employee directors.



## 2016 Director Compensation

The following table sets forth information regarding the compensation for each of our non-employee directors for the 2016 fiscal year that ended December 31, 2016. Nanometrics' non-employee director compensation program for the 2016 fiscal year comprised: (a) cash compensation, consisting of annual retainer fees, additional fees for chairing Board committees, and additional fees for serving as a committee member; and (b) equity compensation, consisting of restricted stock units. Each of these components is detailed below.

## Director Compensation Table For Fiscal Year 2016

	Fees Earned or		All Other Compensation	Total
	Paid in Cash	Stock Awards		
	(\$)	(\$) <sup>(1),(2)</sup>	(\$) <sup>(3)</sup>	(\$)
Bruce C. Rhine <sup>(4)</sup>	\$ 100,000	\$ 100,000	\$ 864	\$200,864
J. Thomas Bentley <sup>(5)</sup>	\$ 70,000	\$ 100,000	\$ 24,188	\$194,188
Edward Brown Jr. <sup>(6)</sup>	\$ 77,500	\$ 100,000	\$ —	\$177,500
Mr. Christopher Seams <sup>(7)</sup>	\$ 67,500	\$ 100,000		