ULTRATECH INC

FORM 10-Q
(Quarterly Report)

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Sector	Technology
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended April 1, 2017

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

For the transition period from ______to ______

Commission File Number 0-22248

ULTRATECH, INC.
(Exact name of registrant as specified in its charter)

DELAWARE	**94-3169580**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
3050 Zanker Road, San Jose, California	**95134**
(Address of principal executive offices)	**(Zip Code)**

Registrant's telephone number, including area code (408) 321-8835

(Former name, former address and former fiscal year, if changed since last report)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definition of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	☐		Accelerated filer	☒
Non-accelerated filer	☐	(Do not check if a smaller reporting company)	Smaller reporting company	☐
Emerging growth company	☐			

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date:

Class	Outstanding as of March 31, 2017
common stock, $0.01 par value	27,236,174

ULTRATECH, INC.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

ULTRATECH, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands)	April 1, 2017 (Unaudited)	December 31, 2016*
ASSETS		
Current assets:		
Cash and cash equivalents	$ 119,841	$ 86,744
Short-term investments	154,397	180,849
Accounts receivable, net	63,259	54,549
Inventories, net	48,876	50,475
Prepaid expenses and other current assets	6,601	7,658
Total current assets	392,974	380,275
Property, plant, and equipment, net	11,582	13,869
Intangible assets, net	10,231	10,630
Other assets	9,557	10,798
Total assets	$ 424,344	$ 415,572
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Notes payable	$ 1,500	$ 1,500
Accounts payable	16,295	14,038
Deferred product and services income	5,108	4,352
Other current liabilities	13,807	18,028
Total current liabilities	36,710	37,918
Other liabilities	13,231	12,456
Stockholders' equity	374,403	365,198
Total liabilities and stockholders' equity	$ 424,344	$ 415,572

* The balance sheet as of December 31, 2016 has been derived from the audited financial statements at that date.

See accompanying notes to unaudited condensed consolidated financial statements

ULTRATECH, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

(In thousands, except per share amounts)	Three Months Ended April 1, 2017	Three Months Ended April 2, 2016
Net sales:		
Products	$ 54,033	$ 42,258
Services	3,076	2,752
Licenses	300	200
Total net sales	57,409	45,210
Cost of sales:		
Cost of products sold	27,659	24,179
Cost of services	3,267	2,864
Total cost of sales	30,926	27,043
Gross profit	26,483	18,167
Operating expenses:		
Research, development, and engineering	8,884	8,235
Selling, general, and administrative	14,505	11,314
Operating income (loss)	3,094	(1,382)
Interest expense	(4)	(18)
Interest and other income, net	329	173
Income (loss) before income tax	3,419	(1,227)
Income tax provision (benefit)	451	(73)
Net income (loss)	$ 2,968	$ (1,154)
Net income (loss) per share - basic	$ 0.11	$ (0.04)
Number of shares used in per share computations - basic	27,289	26,798
Net income (loss) per share - diluted	$ 0.11	$ (0.04)
Number of shares used in per share computations - diluted	27,678	26,798

See accompanying notes to unaudited condensed consolidated financial statements

ULTRATECH, INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(Unaudited)

(In thousands)	Three Months Ended April 1, 2017	Three Months Ended April 2, 2016
Net income (loss)	$ 2,968	$ (1,154)
Other comprehensive income (loss), net of tax:		
Change in unrealized gain on investments	(13)	322
Change in minimum post retirement benefits obligation	(150)	46
Other comprehensive income	(163)	368
Total comprehensive income (loss)	$ 2,805	$ (786)

See accompanying notes to unaudited condensed consolidated financial statements

ULTRATECH, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

(In thousands)	Three Months Ended April 1, 2017	Three Months Ended April 2, 2016
Cash flows from operating activities:		
Net income (loss)	$ 2,968	$ (1,154)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation	1,058	1,455
Amortization of intangibles and other	536	643
Amortization of security premium	39	69
Stock-based compensation	3,192	3,479
Deferred income taxes	324	—
Changes in operating assets and liabilities:		
Accounts receivable	(8,710)	(22,635)
Inventories	4,658	4,421
Prepaid expenses and other current assets	1,057	670
Other assets	(163)	(59)
Accounts payable	2,258	941
Deferred product and services income	756	1,651
Other current liabilities	(4,221)	2,029
Other liabilities	293	(404)
Net cash provided by (used in) operating activities	4,045	(8,894)
Cash flows from investing activities:		
Capital expenditures	(555)	(185)
Purchase of investments in securities	(12,019)	(21,100)
Proceeds from maturities of investments	38,419	42,943
Net cash provided by investing activities	25,845	21,658
Cash flows from financing activities:		
Proceeds from notes payable	1,500	5,120
Repayment of notes payable	(1,500)	(5,120)
Proceeds from issuance of common stock for stock option exercises	4,373	305
Tax payment for issuance of common stock from release of restricted stock units	(1,166)	(1,737)
Net cash provided by (used in) financing activities	3,207	(1,432)
Net increase in cash and cash equivalents	33,097	11,332
Cash and cash equivalents at beginning of period	86,744	63,008
Cash and cash equivalents at end of period	$ 119,841	$ 74,340
Supplemental disclosures of cash flow information:		
Other non-cash changes:		
Systems transferred to inventory and other assets from equipment, net	$ 1,764	$ —

See accompanying notes to unaudited condensed consolidated financial statements

Ultratech, Inc.
Notes to Condensed Consolidated Financial Statements
(Unaudited)
April 1, 2017

(1) Description of Business

Ultratech, Inc. (referred to herein as "Ultratech," the "Company", "we", "our" or "us") develops, manufactures and markets photolithography, laser thermal processing and inspection equipment designed to reduce the cost of ownership for manufacturers of semiconductor devices, including advanced packaging processes and various nanotechnology components including micro electro mechanical systems ("MEMS"), high-brightness light emitting diodes ("HBLEDs") and atomic layer deposition ("ALD") for customers located throughout North America, Europe, Singapore, Japan, Taiwan, Korea and the rest of Asia. Ultratech was incorporated in the state of Delaware in 1992.

We supply step-and-repeat photolithography systems based on one-to-one imaging technology. Within the semiconductor industry, we target the market for advanced packaging applications. Our laser thermal processing equipment is targeted at advanced annealing applications within the semiconductor industry. Within the nanotechnology industry, our target markets includes MEMS, HBLEDs and ALD. Our wafer inspection system provides the flexibility to address a wide range of applications including improved overlay control and enhanced yield.

In evaluating our business, we gave consideration to our Chief Executive Officer's review of financial information and the organizational structure of our management. Based on this review, we concluded that, at the present time, resources are allocated and other financial decisions are made based on our consolidated financial information. Accordingly, we have determined that we operate in one business segment, which is the manufacture and distribution of capital equipment to manufacturers of semiconductor devices and nanotechnology components.

Recent Developments

On February 2, 2017, the Company, Veeco Instruments Inc., a Delaware corporation ("Veeco") and Ulysses Acquisition Subsidiary Corp., a Delaware corporation and a wholly owned subsidiary of Veeco ("Merger Subsidiary"), entered into an Agreement and Plan of Merger (the "Merger Agreement"), pursuant to which, among other things, Merger Subsidiary will be merged with and into the Company (the "Merger"), with the Company surviving the Merger as a wholly owned subsidiary of Veeco, subject to the terms and conditions of the Merger Agreement. The boards of directors of both Veeco and the Company have approved the transaction. The closing of the Merger is subject to the adoption of the Merger Agreement by the affirmative vote of the holders of at least a majority of the outstanding shares of our common stock and to various other customary conditions, the absence of any temporary restraining order, preliminary or permanent injunction or other judgment issued by any court of competent jurisdiction enjoining or otherwise prohibiting the consummation of the Merger and the SEC having declared effective a registration statement on Form S-4 with respect to the shares of Veeco common stock issuable in connection with the Merger. In addition, it is a condition to closing of the Merger that the Company and its subsidiaries, on a consolidated basis, have at least $180 million of cash on hand held in the United States. Pursuant to the Merger Agreement, and subject to the terms and conditions contained therein, upon the closing of the Merger, each share of our common stock outstanding immediately prior to the closing of the Merger (other than shares of our common stock owned by us as treasury shares or owned by Veeco, any of its subsidiaries, any of our subsidiaries or holders of our common stock, if any, who properly exercise their appraisal rights under the General Corporation Law of the State of Delaware) will be converted into the right to receive (i) $21.75 in cash without interest and (ii) 0.2675 of a share of Veeco common stock.

On February 17, 2017, we received notice from the U.S. Federal Trade Commission that it had granted early termination, effective immediately, of the applicable waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, (the "HSR Act"), for the Merger. The early termination of the waiting period under the HSR Act satisfies one of the conditions to the closing of the Merger, which remains subject to other closing conditions, including the adoption of the Merger Agreement by requisite vote of our stockholders.

(2) Basis of Presentation

The accompanying condensed consolidated financial statements include our accounts and the accounts of our subsidiaries. All intercompany accounts and transactions have been eliminated.

Our interim financial statements have been prepared in accordance with generally accepted accounting principles in the United States ("U.S. GAAP") for interim financial information and the rules and regulations of the Securities and Exchange Commission ("SEC") for interim financial statements and accounting policies, consistent, in all material respects with those applied in preparing our audited consolidated financial statements included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2016 , filed with the SEC on March 1, 2017, as amended. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. In our opinion, all adjustments, consisting of only normal recurring adjustments considered necessary for fair presentation, have been included.

Our first fiscal quarters covered by this report ended on April 1, 2017 and April 2, 2016 . All references to the quarter or the three month period refer to our first fiscal quarter. Our fiscal year ends on December 31.

Operating results for the three months period ended April 1, 2017 are not necessarily indicative of the results that may be expected for the year ending December 31, 2017 , or any future period.

USE OF ESTIMATES

The preparation of the financial statements and related disclosures in conformity with U.S. GAAP require us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and the related disclosure of contingent assets and liabilities at the date of the consolidated financial statements. By their nature, these estimates and judgments are subject to an inherent degree of uncertainty. On an ongoing basis, management evaluates its estimates, including those related to inventories, purchase order commitments, warranty obligations, asset retirement obligations, bad debts, estimated useful lives of fixed assets and intangible assets, asset impairment, intangible asset impairment, income taxes, deferred income tax valuation allowance, stock-based compensation, and contingencies and litigation. We base our estimates on historical experience and on various other analyses and assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

IMPACT OF RECENTLY ISSUED ACCOUNTING STANDARDS

In May 2014, the Financial Accounting Standards Board (“FASB”) issued a new standard to achieve a consistent application of revenue recognition within the U.S., resulting in a single revenue model to be applied by reporting companies under U.S. GAAP. Under the new model, recognition of revenue occurs when a customer obtains control of promised goods or services in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In addition, the new standard requires that reporting companies disclose the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. On July 9, 2015, the FASB agreed to delay the effective date by one year. As currently issued and amended and in accordance with the agreed upon delay, the new standard is effective for us beginning in the first quarter of 2018. Early adoption is permitted, but not before the original effective date of the standard. The new standard is required to be applied retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of initially applying it recognized at the date of initial application. While we continue to assess all potential impacts of the standard, we currently believe the most significant impact will likely relate to systems revenue. Under the new standard we are evaluating whether our systems revenue would be recognized on shipment. We are planning to adopt the standard on January 1, 2018. We plan to adopt the standard retrospectively with the cumulative effect of initially applying it recognized at the date of initial application ("modified retrospective" approach).

In February 2016, the FASB issued ASU 2016-02, “Leases” (Topic 842) which supersedes Topic 840, Leases. The update requires companies to generally recognize on the balance sheet operating and financing lease liabilities and corresponding right-of-use assets. The new standard is effective for us in our first quarter of fiscal year 2020 on a modified retrospective basis and earlier adoption is permitted. We are currently evaluating the impact of our pending adoption of ASU 2016-02 on our condensed consolidated financial statements.

RECENTLY ADOPTED ACCOUNTING STANDARDS

In March 2016, the FASB issued ASU 2016-09, “Compensation - Stock Compensation” (Topic 718): ASU 2016-09 identifies areas for simplification involving several aspects of accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, an option to recognize gross stock compensation expense with actual forfeitures recognized as they occur, as well as certain classifications on the statement of cash flows. The Company adopted ASU 2016-09 effective January 1, 2017 and will maintain the current forfeiture policy to estimate forfeitures expected to occur to determine stock-based compensation expense. As a result of the adoption of this ASU, we recognized additional deferred tax assets for the excess tax benefits that arose directly from tax deductions related to equity compensation greater than amounts recognized for financial reporting and also recognized an increase of an equal amount in the valuation allowance against those deferred tax assets.

Revenue Recognition

We recognize revenue when persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, the arrangement consideration is fixed or determinable, and collectability is reasonably assured. We derive revenue from four sources: system sales, spare parts sales, service contracts and license fees.

Provided all other criteria are met, we recognize revenues on system sales when system acceptance provisions have been met in accordance with the terms and conditions of the arrangement. In the event that terms of the sale provide for a lapsing system acceptance period, we recognize revenue upon the expiration of the lapsing acceptance period or system acceptance, whichever occurs first. In these instances, which are infrequent, revenue is recorded only if the product has met product specifications prior to shipment and management deems that no significant uncertainties as to product performance exist.

Our transactions frequently include the sale of systems and services under multiple element arrangements. In transactions with multiple deliverables, revenue is recognized upon the delivery of the separate elements and when system acceptance has occurred or we are otherwise released from our system acceptance obligations.

For multiple element arrangements, the total consideration for an arrangement is allocated among the separate elements in the arrangement based on a selling price hierarchy. The selling price hierarchy for a deliverable is based on (i) vendor specific objective evidence (VSOE), if available; (ii) third party evidence of selling price if VSOE is not available; or (iii) an estimated selling price, if neither VSOE nor third party evidence is available. If we have not established VSOE and cannot obtain third party evidence of selling price, we determine our estimate of the relative selling price by considering our production costs and historical margins of similar products or services. We believe this best represents the price at which we would transact a sale if the product or service were sold on a stand-alone basis. We regularly review the method used to determine our relative selling price and update any estimates accordingly. We limit the amount of revenue recognized for delivered elements to the amount that is not contingent on the future delivery of products or services or other future performance obligations.

We generally recognize revenue from spare parts sales upon shipment, as our products are generally sold on terms that transfer title and risk of ownership when it leaves our site. We sell service contracts for which revenue is deferred and recognized ratably over the contract period (for time-based service contracts) or as service hours are delivered (for contracts based on a purchased quantity of hours). We recognize license revenue from transactions in which our systems are re-sold by our customers to third parties, as well as from royalty arrangements.

Costs related to deferred product revenues are capitalized (deferred) and recognized at the time of revenue recognition. Deferred product revenue and costs are netted on our balance sheet, under the caption “deferred product and services income.” The gross amount of deferred revenues and deferred costs at April 1, 2017 was $5.5 million and $0.4 million , respectively, as compared to $4.6 million and $0.2 million , respectively, at December 31, 2016 .

Costs incurred for shipping and handling are included in cost of sales.

(3) Stock-Based Compensation

Stock-based compensation expenses recognized under ASC Topic 718, *Compensation – Stock Compensation* (“ASC 718”), for employees and directors and the effect on our Condensed Consolidated Statements of Operations were as follows:

	Three Months Ended	
(In thousands)	**April 1, 2017**	**April 2, 2016**
Cost of sales	$ 174	$ 187
Research, development, and engineering	807	801
Selling, general and administrative expenses	2,211	2,491
Total stock-based compensation expense	$ 3,192	$ 3,479

Stock-based compensation cost capitalized as part of inventory during the three month periods ended April 1, 2017 and April 2, 2016 was $0.1 million .

As required by ASC 718, we estimate expected forfeitures and recognize compensation costs only for those equity awards expected to vest. As of April 1, 2017 , there was $27.9 million of total unrecognized compensation cost related to non-vested stock-based compensation arrangements granted under our 1993 Stock Option Plan/Stock Issuance Plan, as amended (the "1993 Plan"). The costs related to stock options and restricted stock units are expected to be recognized over a weighted average period of 2.79 years .

The 1993 Plan provides for the grant of stock-based awards to our eligible employees, consultants and advisers and non-employee directors. As of April 1, 2017 , there were insignificant shares reserved for future awards under the 1993 Plan.

We used the following weighted-average assumptions to estimate the fair value of our stock options granted:

	Three Months Ended	
	April 1, 2017	April 2, 2016
Expected life (in years)	N/A	5.9
Risk-free interest rate	N/A	1.7%
Volatility	N/A	43%
Dividend yield	N/A	—%

Our equity awards granted during the three months period ended April 1, 2017 and the corresponding period of 2016 were granted with vesting terms of 50 months.

(4) Common Stock Repurchase Program

Share Repurchase Program

On October 27, 2014, our board of directors authorized the repurchase of up to $100 million of the Company's common stock. Any repurchases may be made through open market purchases, block trades, privately negotiated transactions and/or derivative transactions, subject to market conditions and management's ongoing determination that it is the best use of available cash. We expect to use cash on hand to fund any repurchases. The repurchase authorization does not obligate us to acquire any common stock.

As of April 1, 2017, we have repurchased an aggregate of 2.3 million shares of common stock at an average cost per share of $18.09 under the stock repurchase plan. The total purchase price of $40.7 million was reflected as an increase to treasury stock resulting in a reduction to stockholder's equity.

During the three month period ended April 1, 2017 we did not repurchase any common stock under the stock repurchase plan.

(5) Basic and Diluted Net Income (Loss) Per Share

The following table sets forth the computation of basic and diluted net income (loss) per share:

(In thousands, except per share amounts)	Three Months Ended April 1, 2017	Three Months Ended April 2, 2016
Numerator:		
Net income (loss)	$ 2,968	$ (1,154)
Denominator:		
Basic weighted-average shares outstanding	27,289	26,798
Effect of dilutive employee stock options and restricted stock units	389	—
Diluted weighted-average shares outstanding	27,678	26,798
Net income (loss) per share - basic	$ 0.11	$ (0.04)
Net income (loss) per share - diluted	$ 0.11	$ (0.04)

The dilutive effect of outstanding options and restricted stock units is reflected in diluted net income per share, but not diluted net loss per share, by application of the treasury stock method, which includes consideration of stock-based compensation required by U.S. GAAP.

For the three month period ended April 1, 2017, diluted earnings per share includes the effect of dilutive employee stock options and restricted stock units. Zero effect of dilutive employee stock options and restricted stock units were included for the three month period ended April 2, 2016.

For the three month period ended April 1, 2017 , a total of 1.4 million shares of common stock, subject to outstanding options and restricted stock units, respectively, were excluded from the computation of diluted net income per share as the resulting effect would have been anti-dilutive, as compared to a total of 2.7 million shares of common stock subject to outstanding options and restricted stock units, which were excluded from the computation of diluted net income (loss) per share for the three month period ended April 2, 2016.

(6) Fair Value Measurements

Fair value is defined under ASC Topic 820, *Fair Value Measurements and Disclosures* (“ASC 820”) as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value under ASC 820 must maximize the use of observable inputs and minimize the use of unobservable inputs. ASC 820 describes a fair value hierarchy based on three levels of inputs, of which the first two are considered observable and the last unobservable, that may be used to measure fair value which are the following:

- Level 1 - Quoted prices for identical assets or liabilities in active markets.
- Level 2 - Quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets.
- Level 3 - Model-derived valuations in which one or more significant inputs or significant value drivers are unobservable.

We measure certain financial assets and liabilities at fair value on a recurring basis, including available-for-sale securities and foreign currency derivatives. The fair value of certain financial assets and liabilities was determined using the following inputs:

(In thousands)	Fair Value Measurements at April 1, 2017 Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Available-for-sale securities (1)				
Commercial paper	$ 31,679	$ —	$ 31,679	$ —
Money market funds	2,189	2,189	—	—
U.S. treasury bills and notes	10,477	10,477	—	—
Securities and obligations of U.S. government agencies	134,181	—	134,181	—
	178,526	12,666	165,860	—
Foreign currency derivatives (2)	2	—	2	—
Foreign currency derivatives (3)	(1)	—	(1)	—
	$ 178,527	$ 12,666	$ 165,861	$ —

(In thousands)	Fair Value Measurements at December 31, 2016 Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Available-for-sale securities (1)				
Commercial paper	$ 23,684	$ —	$ 23,684	$ —
Money market funds	2,266	2,266	—	—
U.S. treasury bills and notes	29,461	29,461	—	—
Securities and obligations of U.S. government agencies	127,704	—	127,704	—
	183,115	31,727	151,388	—
Foreign currency derivatives (2)	4	—	4	—
Foreign currency derivatives (3)	(4)	—	(4)	—
	$ 183,115	$ 31,727	$ 151,388	$ —

(1) Included in cash and cash equivalents and short-term investments on our condensed consolidated balance sheets. See "Investments" in Note 7 for further details.
(2) Included in other current assets on our condensed consolidated balance sheets. Consisted of forward foreign exchange contracts for Japanese yen. See "Derivative Instruments and Hedging" in Note 8 for further details.
(3) Included in other current liabilities on our condensed consolidated balance sheets. Consisted of forward foreign exchange contracts for Japanese yen. See "Derivative Instruments and Hedging" in Note 8 for further details.

(7) Investments

We classified all of our investments as "available for sale" as of April 1, 2017 and December 31, 2016 . Accordingly, we state our investments at estimated fair value. Fair values are determined based on quoted market prices or pricing models using current market rates. We deem all investments to be available to meet current working capital requirements. The cost of securities sold was determined based on the specific identification method.

The following table summarizes our investments:

Available-for-sale securities (in thousands)	April 1, 2017 Amortized Cost	April 1, 2017 Accumulated Other Comprehensive Income Gains	April 1, 2017 Accumulated Other Comprehensive Income Losses	April 1, 2017 Estimated Fair Value	December 31, 2016 Amortized Cost	December 31, 2016 Accumulated Other Comprehensive Income Gains	December 31, 2016 Accumulated Other Comprehensive Income Losses	December 31, 2016 Estimated Fair Value
Commercial paper	$ 31,702	$ 2	$ 25	$ 31,679	$ 23,744	$ —	$ 60	$ 23,684
Money market funds	2,189	—	—	2,189	2,266	—	—	2,266
U.S. treasury bills and notes	10,485	—	8	10,477	29,467	1	7	29,461
Securities and obligations of U.S. government agencies	134,487	11	317	134,181	127,961	8	265	127,704
Total	$ 178,863	$ 13	$ 350	$ 178,526	$ 183,438	$ 9	$ 332	$ 183,115

The following table identifies the balance sheet classifications of our investments:

(In thousands)	April 1, 2017	December 31, 2016
Cash equivalents	$ 24,129	$ 2,266
Short-term investments	154,397	180,849
Investments, at estimated fair value	$ 178,526	$ 183,115

The gross amortized cost and estimated fair value of our investments at April 1, 2017 and December 31, 2016 , by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because the issuers of the securities may have the right to prepay obligations without prepayment penalties.

(In thousands)	April 1, 2017 Gross Amortized Cost	April 1, 2017 Fair Value	December 31, 2016 Gross Amortized Cost	December 31, 2016 Fair Value
Due in one year or less	$ 122,738	$ 122,577	$ 112,164	$ 112,058
Due after one year through five years	56,125	55,949	71,274	71,057
Total	$ 178,863	$ 178,526	$ 183,438	$ 183,115

The following table provides the breakdown of the cash equivalents and investments with unrealized losses at April 1, 2017 :

(In thousands)	In Loss Position for Less Than 12 Months Fair Value	In Loss Position for Less Than 12 Months Gross Unrealized Losses	Total Fair Value	Total Gross Unrealized Losses
Commercial papers	14,272	25	14,272	25
U.S. treasury bills and notes	$ 10,477	$ 8	$ 10,477	$ 8
Securities and obligations of U.S. government agencies	119,679	317	119,679	317
Total	$ 144,428	$ 350	$ 144,428	$ 350

The following table provides the breakdown of the cash equivalents and investments with unrealized losses at December 31, 2016 :

	In Loss Position for Less Than 12 Months		Total	
(In thousands)	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Commercial papers	$ 17,693	$ 60	$ 17,693	$ 60
U.S. treasury bills and notes	$ 18,463	$ 7	$ 18,463	$ 7
Securities and obligations of U.S. government agencies	$ 103,426	$ 265	$ 103,426	$ 265
Total	$ 139,582	$ 332	$ 139,582	$ 332

We review our investment portfolio regularly for impairment. A security is considered impaired when its fair value is less than its cost basis. If we intend to sell an impaired debt security or it is more likely than not that we will be required to sell it prior to recovery of its amortized cost basis, and other-than-temporary-impairment ("OTTI") is deemed to have occurred. In these instances, the OTTI loss is recognized in earnings equal to the entire difference between the debt security's amortized cost basis and its fair value at the balance sheet date.

If we do not intend to sell an impaired debt security and it is not more likely than not that we will be required to sell the security prior to recovery of its amortized cost basis, we must determine whether the security will recover its amortized cost basis. If we conclude that we will not recover the security's amortized cost basis, a credit loss exists and the resulting OTTI is separated into:

- The amount representing the credit loss, which is recognized in earnings, and
- The amount related to all other factors, which is recognized in other comprehensive income.

As part of this assessment, we will consider the various characteristics of each security, including, but not limited to the following: the length of time and the extent to which the fair value has been less than the amortized cost basis; adverse conditions specifically related to the security, an industry, or a geographic area; the payment structure of the debt security; failure of the issuer of the security to make scheduled interest or principal payments; any changes to the rating of the security by a rating agency and related outlook or status; and recoveries or additional declines in fair value subsequent to the balance sheet date. The relative importance of this information varies based on the facts and circumstances surrounding each security, as well as the economic environment at the time of assessment.

We have not recorded any OTTI on our investments for the three month period ended April 1, 2017 or for the corresponding period of 2016.

(8) Derivative Instruments and Hedging

The majority of our revenue, expenses and capital purchasing activities are transacted in U.S. dollars. However, we also enter into sales contracts in other currencies, primarily Japanese yen, as we have direct sales operations in Japan and related orders are often denominated in Japanese yen. This subjects us to a higher degree of risk from currency exchange rate fluctuations.

Our policy is to minimize foreign currency denominated transaction and re-measurement exposure with derivative instruments, mainly forward contracts. We enter into foreign currency forward contracts that generally have maturities of nine months or less. The gains and losses on these derivatives are intended to mitigate the translation gains and losses recognized in earnings. We do not enter into foreign exchange forward contracts for speculative purposes.

Under ASC Topic 815, *Derivatives and Hedging* ("ASC 815"), all derivatives are recorded on the balance sheet at fair value. The gains and losses resulting from changes in fair value are accounted for depending on the use of the derivative and whether it is designated and qualifies for hedge accounting.

The fair value of derivative instruments recorded in our Condensed Consolidated Balance Sheets is as follows:

		Fair Value as of	
(In thousands)	Balance Sheets Location	April 1, 2017	December 31, 2016
Foreign exchange contracts	Other current assets	$ 2	$ 5
	Other current liabilities	(1)	(5)
Total derivatives		$ 1	$ —

Our derivative financial instruments are subject to both credit and market risk. Credit risk is the risk of loss due to failure of a counterparty to perform its obligations in accordance with contractual terms. Market risk is the potential change in an investment's value caused by fluctuations in interest and currency exchange rates, credit spreads or other variables. We monitor the credit-worthiness of the financial institutions that are counterparties to our derivative financial instruments and do not consider the risks of counterparty nonperformance to be material. Credit and market risks, as a result of an offset by the underlying assets being hedged, related to derivative instruments were not considered material at April 1, 2017 and December 31, 2016 .

Cash Flow Hedging

We designate and document as cash flow hedges foreign exchange forward contracts that are used by us to hedge the risk that forecasted revenue may be adversely affected by changes in foreign currency exchange rates. The maturity of these instruments is generally nine months or less. The effective portion of the contracts' gains or losses is included in accumulated other comprehensive income (loss) ("OCI") until the period in which the forecasted sale being hedged is recognized, at which time the amount in OCI is reclassified to earnings as a component of revenue. To the extent that any of these contracts are not considered to be effective in offsetting the change in the value of the forecasted sales being hedged, the ineffective portion of these contracts is immediately recognized in income as a component of interest and other income, net. We calculate hedge effectiveness at a minimum each fiscal quarter. We measure hedge effectiveness by comparing the cumulative change in the spot rate of the derivative with the cumulative change in the spot rate of the anticipated sales transactions. We record any excluded components of the hedge in interest and other income, net.

At April 1, 2017 , we have no currency forward contracts for the sale of Japanese yen and at December 31, 2016 , we had two currency forward contract for the sale of Japanese yen of 697 million .

Balance Sheet Derivatives

We manage the foreign currency risk associated with Japanese yen denominated assets and liabilities using foreign exchange forward contracts. The change in fair value of these derivatives is recognized as a component of interest and other income (expense), net and is intended to offset the remeasurement gains and losses associated with the non-functional currency denominated assets and liabilities. At April 1, 2017 , we had one currency buy-forward contract for the purchase of 29.0 million Japanese yen, or approximately $0.3 million and one currency sell-forward contract for the sale of 11.1 million Japanese yen, or approximately $0.1 million .

The following sets forth the effect of the foreign exchange contracts derivative instruments on our Condensed Consolidated Statements of Operations:

(In thousands)	Three Months Ended	
Location of Gain/(Loss) Recognized on Derivatives in Statements of Operations	April 1, 2017	April 2, 2016
Interest and other income (expense), net	$ 8	$ (178)

(9) Inventories, net

Inventories consisted of the following:

(In thousands)	April 1, 2017	December 31, 2016
Raw materials	$ 17,087	$ 17,273
Work-in-process	17,259	15,510
Finished products	14,530	17,692
Balance, end of the period	$ 48,876	$ 50,475

(10) Notes Payable

We have a line of credit agreement with a brokerage firm. Under the terms of this agreement, we may borrow funds at a cost equal to the current Federal fund's open rate plus 125 basis points (approximately 2.1% as of April 1, 2017). Funds are advanced to us under this facility based on pre-determined advance rates on the cash and securities held by us in this brokerage account. Under this facility, we may borrow up to 75% of our total cash, cash equivalents and investments balance in this brokerage account with no restriction in the use of those assets. This agreement has no set expiration date and there are no loan covenants, other than the aforementioned collateral requirement. At April 1, 2017 and December 31, 2016 , a total of $1.5 million was outstanding under this facility, with a related collateral requirement of approximately $2.0 million of our cash, cash equivalents and investments.

(11) Current Liabilities

Deferred Services Income

A portion of our revenue is generated from service contracts. Payments from certain of these service contracts are collected in advance. As such, revenues from these service contracts are deferred and recognized ratably over the contract period for time-based service contracts, or as service hours are delivered for contracts based on a purchased quantity of hours.

Changes in our deferred service revenue were as follows:

	Three Months Ended	
(In thousands)	April 1, 2017	April 2, 2016
Balance, beginning of the period	$ 3,842	$ 4,011
Additions	1,073	1,179
Revenue recognized	(850)	(1,016)
Balance, end of the period	$ 4,065	$ 4,174
Balance sheets classification		
Deferred service income-short term	$ 3,170	$ 4,174
Deferred service income-long term	895	—
Balance, end of the period	$ 4,065	$ 4,174

Other current liabilities

Other current liabilities consisted of the following:

(In thousands)	April 1, 2017	December 31, 2016
Salaries and benefits	$ 9,319	$ 11,494
Warranty accrual	2,126	1,884
Advanced billings	535	583
Capital lease, current portion	289	504
Other	1,538	3,563
Balance, end of the period	$ 13,807	$ 18,028

Warranty Accrual

We generally warrant our new and refurbished products for material and labor to repair the product for periods of twelve months and three months, respectively, from the date of system acceptance. Accordingly, an accrual for the estimated cost of the warranty is recorded at the time the product is shipped. Extended warranty terms, if granted, result in deferral of revenue equating to our standard pricing for similar service contracts. Recognition of the related warranty cost is deferred until product revenue is recognized. Factors that affect our warranty liability include the number of installed units, historical and anticipated rates of warranty claims and cost per claim. We periodically assess the adequacy of our recorded warranty liabilities and adjust the amounts as necessary. We believe our warranty accrual as of April 1, 2017 is sufficient to satisfy our outstanding obligations as of that date.

Changes in our warranty accrual were as follows:

	Three Months Ended	
(In thousands)	**April 1, 2017**	**April 2, 2016**
Balance, beginning of the period	$ 1,884	$ 1,586
Liabilities accrued for warranties issued	813	653
Warranty claims paid and utilized	(558)	(548)
Changes in accrued warranty liabilities	(13)	(21)
Balance, end of the period	$ 2,126	$ 1,670

(12) Other Liabilities

Other liabilities consisted of the following:

(In thousands)	**April 1, 2017**	**December 31, 2016**
Deferred compensation	$ 6,762	$ 6,100
Asset retirement obligation	2,748	2,706
Post-retirement medical obligation	1,888	1,869
Deferred service income-long term	895	1,145
Deferred rent	587	610
Deferred income tax liabilities - long term	324	—
Long-term income taxes payable	27	26
Balance, end of the period	$ 13,231	$ 12,456

(13) Accumulated Other Comprehensive Income (Loss)

Accumulated other comprehensive income (loss), net of tax, is comprised of the following items:

(In thousands)	**Investments**	**Post Retirement Obligations**	**Total**
Balance as of December 31, 2016	$ (326)	$ (293)	$ (619)
Other comprehensive loss before reclassifications	(13)	—	$ (13)
Amounts reclassified from accumulated OCI	—	(150)	$ (150)
Net other comprehensive loss	$ (13)	$ (150)	$ (163)
Balance as of April 1, 2017	$ (339)	$ (443)	$ (782)

Amounts reclassified from accumulated OCI for the three month period ended April 1, 2017 are as follows:

(In thousands)

Post Retirement Obligations	**Amount**	**Statement of Operations Presentation**
Service cost	$ 36	Selling, general, and administrative
Total reclassifications for the period	$ 36	Net of tax

(14) Employee Benefit Plans

Employee bonus plans

We currently sponsor an executive incentive bonus plan that pays cash awards to employees based on the achievement of predetermined targets. We recorded a charge of $2.0 million under this bonus plan for the three months period ended April 1, 2017 , as compared to $1.9 million for the corresponding period of 2016.

Employee savings and retirement plans

We sponsor a 401(k) employee salary deferral plan that allows voluntary contributions by all full-time employees up to the Internal Revenue Service limits of their pretax earnings. We may also make matching contributions to this plan at our discretion. Employees are eligible for the matching plan if they contribute at least 2% of their compensation. Our contributions, when made, are limited to a maximum of 3% of the employee’s compensation if the Company exceeds certain income levels. We made no contributions to this plan during the three month periods ended April 1, 2017 and April 2, 2016.

We also sponsor an executive non-qualified deferred compensation plan (the "Plan") that allows qualifying executives to defer current cash compensation. As of April 1, 2017 , Plan assets of $5.1 million , representing the cash surrender value of life insurance policies held by us and liabilities of $6.8 million were included in our Consolidated Balance Sheets under the captions “Other assets” and “Other liabilities,” respectively. The related Plan expenses for each of the three month periods ended April 1, 2017 and April 2, 2016 were insignificant .

Post-retirement benefits

We have committed to providing and fully paying for lifetime postretirement medical and dental benefits to our Chief Executive Officer, our Chief Financial Officer and their respective spouses, commencing after retirement. We recorded net periodic benefit costs of an insignificant amount for the three month period ended April 1, 2017 and the corresponding period of 2016.

(15) Income Taxes

For the three month periods ended April 1, 2017 and April 2, 2016 , we recorded an income tax provision of $0.5 million and an income tax benefit of $0.1 million , respectively. The income tax provision recognized for the three month period ended April 1, 2017 resulted primarily from recognizing deferred tax liabilities in certain Singapore operations due to the termination of one of our tax holidays in that jurisdiction effective January 2017. The income tax benefit recorded in the three month periods ended April 2, 2016 , primarily from a f ederal tax benefit related to an OCI gain.

In accordance with ASC Topic 740, *Income Taxes ("ASC 740")* , we had unrecognized tax benefits of $15.2 million as of December 31, 2016. We continue to recognize interest and penalties as a component of the income tax provision. If we are able to eventually recognize these uncertain tax positions, $15.2 million of our unrecognized benefit would reduce the effective tax rate. Over the next twelve months, we do not expect a significant change in liabilities associated with our long term federal tax reserves.

We currently have a full valuation allowance against our U.S. net deferred tax asset. We continue to monitor the relative weight of positive and negative evidence of future profitability in relevant jurisdictions. As of April 1, 2017 , we have determined that the following negative evidence outweighs the positive evidence such that it is not more likely than not that we will generate sufficient taxable income in the relevant jurisdictions to utilize our deferred tax assets and release the associated valuation allowance:

- Three year cumulative taxable loss,
- Movement of certain product manufacturing to Singapore, resulting in reduced U.S. taxable income,
- Inherent earnings volatility of our industry resulting in our inability to forecast long term earnings, and
- Usage limitations resulting in a longer period being required to realize our deferred tax assets.

It is possible that sometime in the next 12 months the positive evidence will be sufficient to release a material amount of our valuation allowance; however there is no assurance that this will occur.

A s a result of our analysis, we concluded that it is more likely than not that, as of April 1, 2017 , our net deferred tax assets will not be realized, with the exception of those in Japan and Taiwan. Therefore, we continue to provide a full valuation allowance against net deferred tax assets outside of Japan and Taiwan. We closely monitor available evidence, and as noted above, may release some or all of the valuation allowance in future periods.

We are subject to federal and state tax examinations for years 1997 and forward by virtue of the tax attributes carrying forward from those years. We are also subject to audits in the foreign jurisdictions in which we operate for years 2003 and forward. There are no material income tax audits currently in progress as of April 1, 2017 .

(16) Intangible Assets, net

As of April 1, 2017 , the gross carrying amount of our intangible assets was $18.1 million and accumulated amortization was $7.9 million . The weighted average life of all our intangible assets was 8.72 years as of April 1, 2017 . During the three month period ending April 1, 2017 , our amortization expense for our intangible assets was $0.4 million as compared to $0.4 million for the corresponding period in 2016.

(17) Commitments and Contingencies

Commitments

On June 28, 2016, we renegotiated the August 15, 2012 lease for our Singapore operations and entered into a new lease that will expire in June 2023. As of April 1, 2017 , the minimum future lease payments to be made under this arrangement is $3.5 million .

In August 2014, we entered into a thirty-six month lease agreement for equipment valued at $2.5 million . At the end of the lease term, we have an option to purchase the leased equipment for a bargain purchase price. Accordingly, this lease is classified as a capital lease. The amortization of these leased assets is included with depreciation expense. As of April 1, 2017 , the total amortization of the leased equipment is $1.3 million .

In July 2015, we entered into a lease amendment for our facilities in San Jose, California. The lease amendment is to extend the building lease for five years which will expire in January 2021. As of April 1, 2017 , the minimum future lease payments to be made under the lease amendment is $9.4 million .

The table below summarizes our capital and operating lease commitments as of April 1, 2017 :

(In thousands)	Capital Leases	Operating Leases
For the years:		
Remainder of 2017	$ 364	$ 2,651
2018	—	3,163
2019	—	3,085
2020	—	3,155
2021	—	587
Thereafter	—	875
Total minimum lease payments	$ 364	$ 13,516

Legal claims

On March 17, 2017, an Ultratech shareholder filed a purported class action complaint against Ultratech, its directors at the time the acquisition was announced, Veeco, and Merger Sub. The complaint alleges, among other things, that in connection with Veeco's proposed acquisition of Ultratech, the defendants purportedly agreed to a supposedly inadequate price for the Ultratech shares, agreed to unreasonable deal-protection measures, and potentially engaged in supposed self-dealing. The complaint seeks declaratory and injunctive relief, including enjoining or rescinding the transaction and rescissory damages to the extent already implemented, an order directing the dissemination of a proxy statement that is not false or misleading, and an award of attorneys' and experts' fees. Ultratech believes the lawsuit is without merit.

On March 22, 2017, two other Ultratech shareholders filed a purported class action complaint against Ultratech and its directors at the time the acquisition was announced. The complaint alleges, among other things, that in connection with Veeco's proposed acquisition of Ultratech, the defendants purportedly agreed to a supposedly inadequate price for the Ultratech shares and potentially engaged in supposed self-dealing. The complaint further alleges that the sale process was flawed and tainted by the self-interest of certain directors. The complaint seeks injunctive relief, including enjoining or rescinding the transaction and rescissory damages to the extent already implemented, compensatory damages, and an award of attorneys' and experts' fees. Ultratech believes the lawsuit is without merit.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

In addition to current and historical information, this Quarterly Report on Form 10-Q ("Report") contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements relate to our future operations, prospects, potential products, services, developments, and business strategies. These statements can, in some cases, be identified by the use of terms such as "may," "will," "should," "could," "would," "intend," "expect," "plan," "anticipate," "believe," "estimate," "predict," "project," "potential," or "continue" or the negative of such terms or other comparable terminology. This Report includes, among others, forward-looking statements regarding our expectations about:

- our proposed Merger with Veeco;
- the timing and recognition of revenue;
- our manufacturing cycles, delivery and non-linearity of shipments, system acceptance, and installation cycles of our products;
- the need for continued large overhead expenses for the commercialization of our laser processing, 1X lithography and wafer inspection systems, which have relatively long manufacturing cycles and will require a significant expenditure on research and development, engineering, sales, support, and general administration, for which an increase in any of these costs, or a failure to meet our sales targets, could materially impact our cash flow and operating results;
- revenue from licensing activities and arrangements;
- variations in sales from period to period in volatile markets such as nanotechnology;
- the market acceptance and volume production of our advanced packaging systems, laser processing systems, inspections systems and our 1000 platform steppers;
- demand for our products and technological change;
- industry developments that impact our customers and demand for their products;
- sales to international customers which represent a significant portion of our revenue;
- our future cash flow, short term investments, and access to additional credit and equity being sufficient to meet our operating requirements for the next 12 months;
- foreign and domestic tax rates and treatment; and
- the financial and operational impact of acquisitions or development of future product lines, technologies, businesses, or the issuance of debt and equity securities.

These statements involve certain known and unknown risks and uncertainties that could cause our actual results to differ materially from those expressed or implied in our forward-looking statements. Such risks and uncertainties include, among others, those listed in Part II, Item 1A. "Risk Factors" of this Report. We do not intend, and undertake no obligation, to update any of our forward-looking statements after the date of this Report to reflect actual results or future events or circumstances.

OVERVIEW

We develop, manufacture and market photolithography, laser thermal processing and inspection equipment for manufacturers of semiconductor devices, including advanced packaging processes and various nanotechnology components such as micro electro mechanical systems ("MEMS"), high-brightness light emitting diodes ("HBLEDS") and atomic layer deposition ("ALD") for customers located throughout North America, Europe, Singapore, Japan, Taiwan, Korea and the rest of Asia. We supply step-and-repeat photolithography systems based on one-to-one imaging technology. Within the semiconductor industry, we target the market for advanced packaging applications. Our laser thermal processing equipment is targeted at advanced annealing applications within the semiconductor industry. Within the nanotechnology industry, our target markets include MEMS, HBLEDs and ALD for the nanotechnology portion of our defined served market. Our wafer inspection system, provides the flexibility to address a wide range of applications including improved overlay control and enhanced yield.

RESULTS OF OPERATIONS

We derive a substantial portion of our total net sales from sales of a relatively small number of newly manufactured systems, which typically range in price from $0.2 million to $6.0 million. As a result of the larger sale prices, the timing and recognition of revenue from a single transaction has had and most likely will continue to have a significant impact on our net sales and operating results for any particular period.

Our backlog at the beginning of a period typically does not include all of the sales needed to achieve our sales objectives for that period. In addition, orders in backlog are subject to cancellation, shipment or system acceptance delays, and deferral or rescheduling by a customer with limited or no penalties. At April 1, 2017 , system orders represented approximately 82% of our backlog. Consequently, our net sales and operating results for a period have been and will continue to be dependent upon our obtaining orders for systems to be shipped and accepted in the same period in which the order is received. Our business and financial results for a particular period could be materially adversely affected if an anticipated order for even one system is not received in time to permit shipment and system acceptance during that period. Furthermore, a substantial portion of our shipments has historically occurred near the end of each quarter. Delays in installation and system acceptance due to, for example, our inability to successfully demonstrate the agreed-upon specifications or criteria at the customer’s facility, or the failure of the customer to permit installation of the system in the agreed upon time, may cause net sales in a particular period to fall significantly below our expectations, which may materially adversely affect our operating results for that period. This risk is especially applicable in connection with the introduction and initial sales of a new product line or as a result of industry trends impacting our foundry customers, including a shift toward semiconductors utilizing new technology transistor architecture. Additionally, the failure to receive anticipated orders or delays in shipments due to, for example, rescheduling, delays, deferrals or cancellations by customers, additional customer configuration requirements, or to unexpected manufacturing difficulties or delays in deliveries by suppliers due to their long production lead times or otherwise, has caused and may continue to cause net sales in a particular period to fall significantly below our expectations and for our operating results to vary from period to period, materially adversely affecting our operating results for that period. In particular, the long manufacturing and acceptance cycles of our advanced packaging family of wafer steppers, laser thermal processing and inspection systems and the long lead time for lenses and other materials, could cause shipments and acceptances of such products to be delayed from one quarter to the next, which could materially adversely affect our financial condition and results of operations for a particular quarter.

Additionally, the need for continued expenditures for research and development, capital equipment, ongoing training and worldwide customer service and support, among other factors, will make it difficult for us to reduce our operating expenses in a particular period if we fail to achieve our net sales goals for the period.

Sales Summary

	Three Months Ended	
	April 1, 2017	**April 2, 2016**
International sales	89%	94%
Domestic sales	11%	6%
Total sales	100%	100%
Semiconductor systems sales	90%	98%
Nanotechnology systems sales	10%	2%
Total systems sales	100%	100%

Net Sales

First Quarter

(In thousands, except percentages)	Three Months Ended April 1, 2017	Three Months Ended April 2, 2016	Amount of Change	Percentage Change
Sales of:				
Products	$ 54,033	$ 42,258	$ 11,775	28%
Services	3,076	2,752	324	12%
Licenses	300	200	100	100%
Total net sales	$ 57,409	$ 45,210	$ 12,199	27%

Net sales consist of revenues from products (system, system upgrades, and spare parts sales), services, and licensing of technologies. Product sales increased 28% to $54.0 million for the three month period ended April 1, 2017 , as compared to

$42.3 million for the corresponding period of 2016. The $11.8 million increase was due to a $9.7 million increase in system sales and a $2.1 million increase in parts sales.

On a product market application basis, system sales and system upgrades to the semiconductor market increased $5.9 million to $43.2 million for the three month period ended April 1, 2017 , as compared to $37.5 million for the corresponding period of 2016 . The increase was primarily due to an increase in advanced packaging and laser processing system sales. Semiconductor industry sales consist of sales to the advanced packaging market, the laser processing applications market, the semiconductor and the semiconductor inspection market.

Nanotechnology market system sales were $4.9 million for the three month period ended April 1, 2017 , as compared to $0.9 million for the corresponding period of 2016. The increase in sales to the nanotechnology market of $4.0 million was primarily due to an increase in HBLED and ALD system sales. System sales to the nanotechnology market are highly dependent on customer capacity demand in the industries we serve, including MEMS, HBLEDs and ALD, and therefore, we expect to experience significant variations in sales to this market from period to period.

Service sales for the three month period ended April 1, 2017 increased $0.3 million to $3.1 million, as compared to $2.8 million for the corresponding period of 2016. The increase in service sales is related to an increase in the number of contracts sold.

License sales were $0.3 million for the three month period ended April 1, 2017 , as compared to $0.2 million for the corresponding period of 2016. License revenue results from tool resales by our existing customers to third parties and from royalty arrangements. Pursuant to our license arrangements, such transactions are subject to a license fee based on units sold. Future revenues from licensing activities, if any, will be contingent upon existing and future licensing arrangements. We may not be successful in generating licensing revenues in the future and do not anticipate the recognition of significant levels of licensing income during the remainder of 2017.

For the three month period ended April 1, 2017 , international sales increased $8.6 million to $50.9 million or 89% of total net sales, as compared to $42.3 million, or 94% of total net sales for the corresponding period of 2016. The increase in the dollar amount of international sales for the three month period ended April 1, 2017 as compared to the corresponding period of 2016 , consisted of (i) an increase of $5.2 million in sales to Greater China (Taiwan and China), (ii) an increase of $3.4 million in sales to Korea, (iii) an increase of $2.1 million in sales to Japan and (iv) an increase of $2.1 million in sales to Europe partially offset by a decrease in sales of $4.3 million to the rest of Asia.

Our international revenue generally is not subject to significant exchange rate fluctuations, principally because sales contracts for our systems are generally denominated in U.S. dollars. In Japan, however, orders are sometimes denominated in Japanese yen. Yen denominated contracts subject us to the risk of currency fluctuations. We attempt to mitigate this risk by entering into foreign currency forward exchange contracts for the period between when an order is received and when it is recorded as revenue. After recording revenue, we use various mechanisms, such as natural hedges, to offset substantial portions of the gains or losses associated with our Japanese yen denominated receivables due to exchange rate fluctuations. We had approximately 86.3 million Japanese yen denominated receivables at April 1, 2017 . International sales expose us to a number of additional risks, including fluctuations in the value of local currencies relative to the U.S. dollar, which impact the relative cost of ownership of our products and, thus, the customer's willingness to purchase our product. (See Part II, Item 1A, "Risk Factors" herein).

Gross Profit

Our gross profit as a percentage of sales has been and most likely will continue to be significantly affected by a variety of factors, including the following: the introduction of new products, which typically have higher manufacturing costs until manufacturing efficiencies are realized and which are typically discounted more than existing products until the products gain market acceptance; the mix of products sold; the rate of capacity utilization; write-down of inventory and open purchase commitments; product discounts, pricing and competition in our targeted markets; and non-linearity of shipments during the period that can result in manufacturing inefficiencies.

First Quarter

On a comparative basis, gross margins increased to 46% for the three month period ended April 1, 2017 , as compared to 40% for the corresponding period of 2016. The gross margin for the three month period ended April 1, 2017 benefited from a 5% increase in manufacturing efficiencies due to greater production volume, a 1% increase due to lower material cost and a 1% increase due to improved service utilization offset by a 1% decrease in gross margin due to higher other manufacturing costs.

Operating Expenses

First Quarter

(In thousands, except percentages)	Three Months Ended April 1, 2017	Three Months Ended April 2, 2016	Amount of Change	Percentage Change
Research, development, and engineering	$ 8,884	$ 8,235	$ 649	8 %
Selling, general, and administrative	14,505	11,314	3,191	28 %
Restructuring	—	—	—	(100)%
Total operating expenses	$ 23,389	$ 19,549	$ 3,840	20 %

Research, development and engineering expenses for the three month period ended April 1, 2017 were $8.9 million , as compared to $8.2 million for the corresponding period of 2016. The $0.6 million increase was due to a $0.8 million increase in research and development expense resulting primarily from an increase in headcount and related expenses, offset by (i) a $0.1 million decrease in employee benefit cost and (ii) a $0.1 million decrease in other research and development cost. As a percentage of net sales, research, development and engineering expenses for the three month period ended April 1, 2017 decreased to 15% from 18% for the corresponding period of 2016. This percentage decrease was primarily due to the increase in net sales experienced in the three month period ended April 1, 2017 .

Selling, general, and administrative expenses for the three month period ended April 1, 2017 were $14.5 million , as compared to $11.3 million for the corresponding period of 2016. The $3.2 million increase was due to (i) a $3.4 million increase related to non-recurring legal expenses related to the recent proxy contest and acquisition cost, (ii) a $0.2 million increase in bonus plan expense, partially offset (i) a $0.3 million decrease in stock-based compensation expense and (ii) a $0.1 million decrease in employee benefit cost. As a percentage of net sales, selling, general and administrative expenses for the three month period ended April 1, 2017 remained relatively unchanged from the corresponding period 2016.

Provision for Income Taxes

We are eligible for tax incentives that provide that certain income earned in Singapore is subject to a tax holiday and/or reduced tax rates for a limited period of time under the laws of Singapore. To realize these benefits, we must meet certain requirements relating to employment and investment activities. It was determined in the first quarter of 2017 that we did not meet all of the requirements for one of the tax holidays and are no longer eligible for the reduced tax rate. The impact of this change in status has been recorded in our first quarter of 2017 tax provision. We do continue to benefit from another tax holiday that is expected to expire in approximately three years. Our ability to realize benefits from these initiatives could be materially adversely affected if, among other things, applicable requirements are not met, the incentives are substantially modified, or if we incur losses for which we cannot take a deduction.

For the three month periods ended April 1, 2017 and April 2, 2016, we recorded an income tax provision of $0.5 million and income tax benefit of $0.1 million, respectively. The income tax provision recognized for the three month period ended April 1, 2017 resulted primarily from recognizing deferred tax liabilities in certain Singapore operations due to the change in the status of the related tax holiday. The income tax benefit recognized for the three month period ended April 2, 2016 resulted primarily from a federal tax benefit related to an OCI gain.

Income tax estimates can be affected by estimates of whether, and within which jurisdictions, future earnings will occur and how, when and if cash is repatriated to the United States, combined with other aspects of an overall income tax strategy. Additionally, taxing jurisdictions could retroactively disagree with our tax treatment of certain items, and some historical transactions have income tax effects going forward. Accounting rules require these future effects to be evaluated using current laws, rules and regulations, each of which can change at any time and in an unpredictable manner. We believe we have adequately provided for any reasonably foreseeable outcome related to these matters and we do not anticipate any material earnings impact from their ultimate resolution.

Each quarter we assess the likelihood that we will be able to recover our deferred tax assets. We consider available evidence, both positive and negative, including historical levels of income, expectations and risks associated with estimates of future taxable income and ongoing prudent and feasible tax planning strategies in assessing the need for the valuation allowance. As a result of our analysis, we concluded that it is more likely than not that, as of April 1, 2017 , our net deferred tax assets will not be realized, with the exception of those in Japan and Taiwan. Therefore, we continue to provide a full valuation allowance against net deferred tax assets outside of Japan and Taiwan. It is possible that sometime in the next 12 months the positive evidence will be sufficient to release a material amount of our valuation allowance; however there is no assurance that this will occur.

We are subject to federal and state tax examinations for years 1997 and forward by virtue of the tax attributes carrying forward from those years. We are also subject to audits in the foreign jurisdictions in which we operate for years 2003 and forward. There are no material income tax audits currently in progress as of April 1, 2017 .

LIQUIDITY AND CAPITAL RESOURCES

Net cash provided by operating activities was $4.0 million for the three month period ended April 1, 2017 , as compared to $8.9 million of net cash used in operating activities during the comparable period of 2016 . Net cash provided by operating activities during the three month period ended April 1, 2017 was attributable to $8.1 million provided by net income after adjustment for non-cash charges such as stock-based compensation, depreciation and amortization of intangibles and other and $4.1 million of net cash used by changes in working capital assets and liabilities as described below.

Working capital sources of cash came from (a) a decrease in inventory of $4.6 million, (b) an increase in accounts payable of $2.3 million, (c) a decrease in prepaid expenses and other current assets of $1.1 million, (d) an increase in deferred product and service revenues of $0.7 million and (e) an increase in other liabilities of $0.3 million. Working capital uses of cash were due to (i) an increase in accounts receivable of $8.7 million, (ii) a decrease in other current liabilities of $4.2 million and (iii) an increase in other assets of $0.2 million.

We believe that because of the relatively long manufacturing cycle of certain of our systems, particularly newer products, our inventories will continue to represent a significant portion of working capital. Currently, we are devoting significant resources to the commercialization of our laser processing and inspection systems and to the development of our next generation 1X lithography technologies. We currently intend to continue to incur significant operating expenses in the areas of research, development and engineering, manufacturing, and selling, general and administrative costs in order to further develop, produce and support these new products. Additionally, gross profit margins, inventory and capital equipment levels may be adversely impacted in the future by costs associated with the production of our laser processing and inspection systems and by future generations of our 1X steppers. These costs include, but are not limited to, additional manufacturing overhead, costs of demonstration systems and facilities and the establishment of additional after-sales support organizations. Moreover, there can be no assurance that operating expenses will not increase, relative to sales, as a result of adding technical, marketing and administrative personnel, among other costs, to support our new products. If we are unable to achieve significantly increased net sales or if our sales fall below expectations, our cash flow and operating results will be materially adversely affected until, among other factors, costs and expenses can be reduced. Our failure to achieve our sales targets for these new products could result in inventory write-offs and asset impairment charges, either of which could materially adversely impact our results of operations.

During the three month period ended April 1, 2017 , net cash provided by investing activities of $25.8 million was attributable to net proceeds of short-term investments of $26.4 million, partially offset by capital expenditures of $0.6 million .

Net cash provided by financing activities of $3.2 million during the three months ended April 1, 2017 was attributable to proceeds received from the issuance of common stock of $4.4 million , partially offset by taxes paid for the release of restricted stock units of $1.2 million .

At April 1, 2017 , we had working capital of $356.3 million . Our principal source of liquidity has been cash provided by our operations and consisted primarily of $272.7 million in cash, cash equivalents and short-term investments, net of outstanding borrowings under our line of credit at April 1, 2017 . Our cash, cash equivalents and short-term investments provides us with substantial financial flexibility in meeting our operating, investing and financing needs.

As of April 1, 2017 , a total of $78.7 million of our cash, cash equivalents, and investments were held by foreign subsidiaries. Amounts held by foreign subsidiaries are generally subject to U.S. income taxation on repatriation to the United States. We currently have no plans to repatriate any foreign earnings back to the United States as we believe our future cash flows provided by our U.S. operations will meet our future U.S. liquidity needs.

Pursuant to the Merger Agreement, a condition to closing of the Merger is that the Company and its subsidiaries, on a consolidated basis, have at least $180 million of cash on hand held in the United States.

We have a line of credit agreement with a brokerage firm. Under the terms of this agreement, we may borrow funds at a cost equal to the current Federal fund's open rate plus 125 basis points (approximately 2.01% as of April 1, 2017). Certain of our cash, cash equivalents and marketable securities secure borrowings outstanding under this facility, but we are not restricted in the use of those assets. Funds are advanced to us under this facility in accordance with pre-determined advance rates based on the cash and securities held by us in this brokerage account. This agreement has no set expiration date and there are no loan covenants other than a collateral requirement. As of April 1, 2017 , $1.5 million was outstanding under this facility, with a related collateral requirement of approximately $2.0 million of our cash, cash equivalents and short-term investments.

The development and manufacture of lithography, laser-based systems, inspection systems and system enhancements is highly capital-intensive. In order to be competitive, we believe we must continue to make significant expenditures for capital equipment; sales, service, training and support capabilities; systems, procedures and controls; and expansion of operations and research and development, among many other items. We expect that cash generated from operations and our cash, cash equivalents and short-term investments will be sufficient to meet our cash requirements for at least the next twelve months. However, in the near-term, we may continue to utilize existing and future lines of credit, and other sources of financing, in order to maintain our present levels of cash, cash equivalents and investments. Beyond the next twelve months, we may require additional equity or debt financing to address our working capital or capital equipment needs. In addition, we may seek to raise equity or debt capital at any time that we deem market conditions to be favorable. Additional financing, if needed, may not be available on reasonable terms, or at all.

We may in the future pursue acquisitions of complementary product lines, technologies or businesses. Future acquisitions may result in potentially dilutive issuances of equity securities, the incurrence of debt and contingent liabilities and amortization expenses and impairment charges related to goodwill and other intangible assets, which could materially adversely affect our financial condition and results of operations. In addition, acquisitions involve numerous risks, including difficulties in the assimilation of the operations, technologies, personnel and products of the acquired companies; the diversion of management's attention from other business concerns; risks of entering markets in which we have limited or no direct experience; and the potential loss of key employees of the acquired company. In the event we acquire product lines, technologies or businesses which do not complement our business, or which otherwise do not enhance our sales or operating results, we may incur substantial write-offs and higher recurring operating costs, which could have a material adverse effect on our business, financial condition and results of operations. In the event that any such acquisition does occur, there can be no assurance as to the effect thereof on our business or operating results.

Foreign Currency

As part of our overall strategy to manage the level of exposure to the risk of foreign currency exchange rate fluctuations, we attempt to hedge most of our Japanese yen-denominated foreign currency exposures. We use foreign currency forward contracts to hedge the risk that outstanding Japanese yen-denominated receipts from customers, for actual or forecasted sales of equipment after receipt of customer orders, may be adversely affected by changes in foreign currency exchange rates. We use foreign currency forward exchange contracts and natural hedges to offset substantial portions of the potential gains or losses associated with our Japanese yen-denominated assets and liabilities due to exchange rate fluctuations. We enter into foreign currency forward contracts that generally have maturities of nine months or less.

Critical Accounting Policies

The discussion and analysis of our financial condition and results of operations is based upon our unaudited condensed consolidated financial statements, which have been prepared in accordance with U.S. GAAP. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. On an on-going basis, we evaluate our critical accounting policies and estimates. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. Our critical accounting policies and estimates are discussed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2016 , as amended.

Information Available at the SEC

Copies of any materials that we have filed with the SEC can be viewed at the SEC's Public Reference Room at 100 F Street NE, Washington, DC 20549. Information regarding the operations of the Public Reference Room can be obtained from the SEC by calling the SEC at 1-800-SEC-0330. Additionally, the SEC maintains a website that contains reports, proxy and other information that we have filed with the SEC. The SEC website can be found at http://www.sec.gov.

Information Available on Company Website

Our website is located at *www.ultratech.com* . We make available, free of charge through our website, our annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K (and amendments to those reports), as soon as reasonably practicable after such reports are filed electronically with the SEC. We have adopted a Code of Ethics for our principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions. We have posted this Code of Ethics on our website. Any future amendments to or waivers of this Code of Ethics will also be posted on our website.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Reference is made to Part II, Item 7A, "Quantitative and Qualitative Disclosures About Market Risk" in our Annual Report on Form 10-K for the year ended December 31, 2016 , as amended, and to the subheading “Derivative Instruments and Hedging” under the heading “Notes to Consolidated Financial Statements” in Item 8, “Financial Statements and Supplementary Data” of our Annual Report on Form 10-K for the year ended December 31, 2016 , as amended.

Interest Rate Risk

Our exposure to market risk due to potential changes in interest rates relates primarily to our investment portfolio, which consisted primarily of fixed interest rate instruments as of April 1, 2017 . We maintain an investment policy designed to ensure the safety and preservation of our invested funds by limiting market risk and the risk of default.

Certain of our cash, cash equivalents and short and long-term investments serve as collateral for a line of credit we maintain with a brokerage firm. The line of credit is maintained for liquidity purposes, mitigating the need to liquidate investments in order to meet our current operating cash requirements.

Credit Risk

We mitigate credit default risk by attempting to invest in high credit quality securities and by positioning our portfolio to respond appropriately to a significant reduction in a credit rating of any investment issuer or guarantor. Our portfolio includes only marketable securities with active secondary or resale markets to ensure portfolio liquidity and is diversified in accordance with our investment policy. To date, we have not experienced any liquidity problems with our portfolio.

As of April 1, 2017 , we did not have any investments in mortgage backed or auction rate securities. However, we intend to closely monitor developments in the credit markets and make appropriate changes to our investment policy as we deem necessary or advisable. Based on our ability to liquidate our investment portfolio and our expected operating cash flows, we do not anticipate any liquidity constraints as a result of the current credit environment.

Foreign Currency Risk Management

The majority of our revenue, expense and capital purchasing activities are transacted in U.S. dollars. However, we do enter into these transactions in other currencies, primarily Japanese yen. To protect against reductions in value and the volatility of future cash flows caused by changes in currency exchange rates, we have established cash flow and balance sheet hedging programs.

We use foreign currency forward contracts to hedge the risk that outstanding Japanese yen denominated receipts from customers for actual or forecasted sales of equipment may be adversely affected by changes in foreign currency exchange rates. Our hedging programs reduce, but do not always entirely eliminate, the impact of currency movements. See “Derivative Instruments and Hedging” in Note 8 under the heading “Notes to Condensed Consolidated Financial Statements” of Part I, Item 1, “Financial Statements” herein for further disclosures.

Item 4. Controls and Procedures

We conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, (the “Exchange Act”), as of the end of the period covered by this report (the “Evaluation Date”). Based upon the evaluation, our principal executive officer and principal financial officer concluded that, as of the Evaluation Date, our disclosure controls and procedures were effective to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our principal executive officer and principal financial officer, to allow timely decisions regarding required disclosure, and is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms.

Disclosure controls and procedures are controls and other procedures that are designed to ensure that information required to be disclosed in our reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in our reports filed or submitted under the Exchange Act is accumulated and communicated to management to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, our management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. Management is further required to apply judgment in evaluating the cost-benefit relationship of possible controls and procedures.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting during the three month period ended April 1, 2017 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

On March 17, 2017, an Ultratech shareholder filed a purported class action complaint in the U.S. District Court for the Northern District of California, captioned The Vladimir Gusinsky Rev. Trust v. Ultratech, Inc., et al., Case No. 4:17-cv-01468-PJH, on behalf of itself and all other Ultratech shareholders against Ultratech, its directors at the time the acquisition was announced, Veeco, and Merger Sub. The complaint alleges, among other things, that in connection with Veeco's proposed acquisition of Ultratech, the defendants purportedly agreed to a supposedly inadequate price for the Ultratech shares, agreed to unreasonable deal-protection measures, and potentially engaged in supposed self-dealing. The complaint seeks to recover under Sections 14(a) and 20(a) of the Securities Exchange Act of 1934 for alleged misstatements and omissions in the preliminary proxy statement filed on March 13, 2017. The complaint seeks declaratory and injunctive relief, including enjoining or rescinding the transaction and rescissory damages to the extent already implemented, an order directing the dissemination of a proxy statement that is not false or misleading, and an award of attorneys' and experts' fees.

On March 22, 2017, two other Ultratech shareholders filed a purported class action complaint in the U.S. District Court for the Northern District of California, captioned De Letter et al. v. Ultratech, Inc., et al., Case No. 3:17-cv-01542-WHA, on behalf of themselves and all other Ultratech shareholders against Ultratech and its directors at the time the acquisition was announced. The complaint alleges, among other things, that in connection with Veeco's proposed acquisition of Ultratech, the defendants purportedly agreed to a supposedly inadequate price for the Ultratech shares and potentially engaged in supposed self-dealing. The complaint further alleges that the sale process was flawed and tainted by the self-interest of certain directors. The complaint seeks to recover under Sections 14(a) and 20(a) of the Securities Exchange Act of 1934 for alleged misstatements and omissions in the preliminary proxy statement filed on March 13, 2017. The complaint seeks injunctive relief, including enjoining or rescinding the transaction and rescissory damages to the extent already implemented, compensatory damages, and an award of attorneys' and experts' fees.

The defendants have not yet responded to either complaint. While it is too early to predict the outcome of litigation or a reasonable range of potential losses, Ultratech believes these lawsuits are without merit. Additional lawsuits arising out of or relating to the merger agreement or the merger may be filed in the future.

Item 1A. Risk Factors

In addition to risks described in the foregoing discussions, and in our annual report on Form 10-K for the year ended December 31, 2016, as amended, the following risks, among others, apply to our business and us:

The semiconductor industry historically has been highly cyclical and has experienced periods of oversupply and technology changes, which have in turn affected the market for semiconductor equipment such as ours and which can adversely affect our results of operations during such periods.

Our business depends in significant part upon capital expenditures by manufacturers of semiconductors, advanced packaging semiconductors and nanotechnology components which in turn depend upon the current and anticipated market demand for such devices and products utilizing such devices. The semiconductor industry historically has been highly cyclical and has experienced recurring periods of oversupply and technology changes. This has, from time to time, resulted in significantly reduced demand for capital equipment and pricing pressure, including on the systems manufactured and marketed by us, and uncertainty among our customers. We believe that markets for new generations of semiconductors, semiconductor packaging and inspection will also be subject to similar fluctuations. Our business and operating results would be materially adversely affected by downturns or slowdowns in the semiconductor packaging market or by loss of market share. Accordingly, we may not be able to achieve or maintain our current or prior level of sales. We attempt to mitigate the risk of cyclicality by participating in multiple markets including semiconductor, semiconductor packaging, semiconductor inspection and nanotechnology sectors as well as diversifying into new markets. We believe that diversifying into new markets such as laser-based annealing for implant activation, lithography steppers for 3-D packaging, HBLED, ALD and inspection can help mitigate the effects of this cyclicality in our industry. Despite such efforts, when one or more of such markets fails to become viable as we anticipate or experience an oversupply or downturn, our net sales and operating results are materially adversely affected. For example, we have experienced less revenue from laser processing as a result of the semiconductor logic foundries' inability to effectively increase yields in 3-D FinFET devices to a level required to invest in their production ramp and unpredictability in other markets that we serve. Customers who manufacture both logic and memory devices are expected to focus their capital spending on the memory sector at this time. We believe that as a result of cyclicality and of other factors affecting our foundry customers, such as shifting customer demand, lower capacity utilization rates and changing product designs, we have and we will continue to experience reduced sales, the push out of orders to us and uncertainty in our business.

Our quarterly revenues and operating results are difficult to predict.

Our revenues and operating results may fluctuate significantly from quarter to quarter due to a number of factors, not all of which are in our control. We manage our expense levels based in part on our expectations of future revenues, and a certain amount of those expenses are relatively fixed. As a result, a change in the timing of recognition of revenue or a change in margins or product mix can have a significant impact on our operating results in any particular quarter. Forecast uncertainty also makes it difficult for us to manage inventory levels. Factors that may cause our results of operations to fluctuate include, but are not limited to:

- market conditions in the electronics and semiconductor industries;
- failure of suppliers to perform in a manner consistent with our expectations,
- customer cancellations or push-outs or delays in orders, shipments, installations and/or system acceptances;
- competitive factors, including customers selecting competitors' products, the introduction of new products by our competitors or any failure of our products to gain or maintain market acceptance;
- changes in selling prices and product mix,
- manufacturing difficulties or delays; and
- product performance issues.

We are dependent on our key personnel, especially Mr. Zafiropoulo, our Chief Executive Officer, and our business and results of operations would be adversely affected if we were to lose our key employees.

Our future operating results depend, in significant part, upon the continued contributions of key personnel, many of whom would be difficult to replace. We have entered into employment agreements only with our Chief Executive Officer and Chief Financial Officer, and our employees are employed "at will." The agreements with our Chief Executive Officer and Chief Financial Officer contain vesting acceleration and severance payment provisions that could result in significant costs or charges to us should the employee be terminated without cause, die or become disabled. We do not maintain any life insurance on any of our key employees. The loss of key personnel could have a material adverse effect on our business, financial condition and results of operations. In addition, our future operating results depend in significant part upon our ability to attract and retain other qualified management, manufacturing, technical, sales and support personnel for our operations. There are only a limited number of persons with the requisite skills to serve in these positions and it may become increasingly difficult for us to hire such personnel over time. At times, competition for such personnel has been intense, particularly in the San Francisco Bay Area where we maintain our headquarters and principal operations, and we may not be successful in attracting or retaining such personnel. The failure to attract or retain such persons would have a material adverse effect on our business, financial condition and results of operations.

There are risks and uncertainties associated with the Merger with Veeco.

The Merger, whether or not consummated, may result in a loss of our key personnel and may disrupt our sales and marketing or other key business activities, including our relationships with customers, suppliers and other third parties, which may have an adverse impact on our financial performance. Our business relationships may be subject to disruption due to uncertainty associated with the Merger, which could have an adverse effect on our results of operations, cash flows and financial condition and, following the completion of the Merger, those of the combined company. Additionally, we have incurred and will continue to incur substantial financial advisory, legal, and other professional fees and expenses in connection with the Merger, which we must pay regardless of whether the Merger is completed. These payments will negatively impact our results of operations, cash flows and financial condition.

Parties with which we do business may be uncertain as to the effects on them from the Merger and the related transactions, including their current or future business relationships with us or the combined company. These relationships may be subject to disruption, as customers, suppliers and other persons with whom we have business relationships may delay or defer certain business decisions or might decide to terminate, change or renegotiate their relationships with us, or consider entering into business relationships with parties other than us or the combined company. These disruptions could have an adverse effect on our results of operations, cash flows and financial position or those of the combined company following the completion of the Merger. The risk, and adverse effect, of any disruption could be exacerbated by a delay in completion of the Merger or termination of the Merger Agreement.

The closing of the Merger is subject to customary closing conditions, including the adoption and approval of the Merger Agreement by an affirmative vote of the holders of at least a majority of the outstanding shares of our common stock, the expiration or termination of the applicable waiting period under the HSR Act, (with respect to which the U.S. Federal Trade Commission granted early termination on February 17, 2017); the absence of any temporary restraining order, preliminary or permanent injunction or other judgment issued by any court of competent jurisdiction enjoining or otherwise prohibiting the consummation of the Merger. In addition, it is a condition to closing of the Merger that the Company and its subsidiaries, on a consolidated basis, have at least $180 million of cash on hand held in the United States. These conditions are described in more detail in the Merger Agreement, which is included as Exhibit 2.1 to our Current Report on Form 8-K with the SEC on February 3, 2017. There is no assurance that all of the conditions set forth in the Merger Agreement will be satisfied or waived to the extent permitted by applicable law or that the Merger will occur when or as expected. If the Merger is not completed, the share price of our common stock could decline, for reasons including the loss of the premium over the pre-announcement market price of our common stock that was to be paid upon consummation of the Merger. Under certain circumstances set forth in the Merger Agreement, upon termination of the Merger Agreement by us or Veeco, we may be required to pay to Veeco a termination fee of $26.5 million, which could have a material adverse effect on our results of operations, cash flows and financial condition.

Some of our current and potential competitors have significantly greater resources than we do, and increased competition could adversely impact sales of our products and our gross margins.

We are a comparatively small company in the highly competitive semiconductor equipment industry where we face competition from a number of companies, many of which are larger and have greater financial, engineering, manufacturing, research and development, marketing and customer support resources than we do. We recently further reduced the size of our workforce. As a result, our competitors may be able to devote greater resources to the development, promotion and sale of new products that are competitive with our products, which could negatively impact sales of our systems. Moreover, there has been merger and acquisition activity among our competitors and potential competitors. These transactions may result in our competitors accumulating an increased amount of resources allowing them to bring to market a portfolio of products and achieve a competitive “product grouping strategy” advantage over us. As a result, there is no assurance that we will continue to maintain market share at a desirable gross margin.

We operate in a highly competitive industry in which customers are required to invest substantial resources in each product, which makes it difficult to achieve significant sales to a particular customer once another vendor’s equipment has been purchased by that customer.

The capital equipment industry in which we operate is intensely competitive. A substantial investment is required to install and integrate capital equipment into a semiconductor, semiconductor inspection, semiconductor packaging or nanotechnology device production line. Advanced technologies have also tended to become more capital intensive. We believe that once a device manufacturer or packaging subcontractor has selected a particular supplier's capital equipment, the manufacturer generally relies upon that equipment for the specific production line application and, to the extent possible, subsequent generations of similar products. Accordingly, it is difficult to achieve significant sales to a particular customer once another supplier's capital equipment has been selected.

We experience competition in advanced packaging from various proximity aligner and stepper companies such as Canon Incorporated, Nikon Corporation, ORC Manufacturing Co., Ltd., Rudolph Technologies, Inc. ("Rudolph"), Shanghai Micro Electronics Equipment Co., Ltd ("SMEE"), Suss Microtec AG ("Suss Microtec"), Ushio as well as from the secondary market from used projection and reduction stepper systems. In nanotechnology, we experience competition from contact, proximity and projection aligner companies, such as Nikon Engineering, SMEE, Suss Microtec and Ushio as well as other third party stepper suppliers. We expect our competitors in the lithography arena to continue to improve the performance of their current products and to introduce new products with improved price and performance characteristics. This could cause a decline in sales or loss of market acceptance of our steppers in our served markets, and thereby materially adversely affect our business, financial condition and results of operations. Enhancements to, or future generations of, competing products may be developed that offer superior cost of ownership and technical performance features.

With respect to our laser annealing technologies, marketed under the LSA101 and LSA201 product names, our primary millisecond anneal competition comes from companies such as Dainippon Screen Manufacturing Co., Ltd., Applied Materials, Inc. ("Applied Materials") and Mattson Technology, Inc. Some of these companies offer products utilizing Rapid Thermal Processing ("RTP"), which is the current prevailing manufacturing technology. RTP does not prevent semiconductor device manufacturers from scaling the lateral dimensions of their transistors to obtain improved performance, but diffusion resulting from the time scales associated with RTP limits the vertical dimension of the junctions. Faster annealing times result in shallower and more abrupt junctions and faster transistors. We believe that RTP manufacturers and semiconductor companies recognize the need to reduce thermal cycle times and are working toward this goal. In July 2000, we licensed certain rights to our then existing laser thermal processing technology, with reservations, to a competing manufacturer of semiconductor equipment. We presently anticipate that this company and others intend to offer laser annealing tools to the semiconductor industry that will compete with our offerings.

Another potential advanced annealing solution utilizes flash lamp annealing technology, or "FLA." Several companies have published papers on annealing tools that incorporate flash lamp technology in order to reduce annealing times and increase annealing temperatures. Developers of FLA technology claim to have overcome annealing difficulties at the advanced nodes. This technique, which employs flash lamps, has shown improvements over RTP in junction depth and sheet resistance, but we believe FLA suffers from pattern-related non-uniformities and could require additional, costly processes to equalize the reflectivity of different areas within the chip or wafer. Our proprietary laser thermal processing solution has been specifically developed to provide junction annealing on near-instantaneous time-scales, while achieving high activation levels. Laser thermal annealing, our first implementation of laser thermal processing, activates dopants in the microsecond-to-millisecond time frame without melting. Our research indicates that, at temperatures just below the melting point of silicon, time durations in the microsecond to millisecond range, are required to achieve full activation, and minimal dopant diffusion.

Additionally, competition to our laser thermal processing products may come from other laser annealing tools, including those presently being used by the flat panel display industry to re-crystallize silicon. Manufacturers of these tools may try to extend the use of their technologies to semiconductor device applications.

In the market for inspection systems, competition for inspection systems comes from a wide range of companies, including large companies such as KLA-Tencor, Nanometrics, Rudolph, and numerous smaller companies developing and manufacturing inspection equipment.

We believe that in order to be competitive, we will need to continue to invest significant financial resources in new product development, new features and enhancements to existing products, the introduction of new stepper systems in our served markets on a timely basis, and maintaining customer service and support centers worldwide. In marketing our products, we may also face competition from vendors employing other technologies. In addition, increased competitive pressure has led to intensified price-based competition in certain of our markets, resulting in lower prices and margins. Should these competitive trends continue, our business, financial condition and operating results may be materially adversely affected.

Our sales cycle is typically lengthy and involves a significant commitment of capital by our customers, which has subjected us, and is likely to continue to subject us, to delays in system acceptances of our products and other risks, any

of which could adversely impact our results of operations by, among other things, delaying recognition of revenue with respect to those orders and resulting in increased installation, qualification and similar costs.

Sales of our systems depend, in significant part, upon the decision of a prospective customer to increase manufacturing capacity, replace older equipment or to restructure current manufacturing facilities, any of which typically involves a significant commitment of capital. Many of our customers in the past have canceled or postponed the development of new manufacturing facilities and have substantially reduced their capital equipment budgets. Many of our largest customers currently face uncertainty in the markets they serve, resulting in delays in placing new orders, the push out of previous orders to us and uncertainty in our business.

In view of the significant investment involved in a system purchase, we have experienced and may continue to experience unexpected delays following initial qualification of our systems as a result of delays in a customer's approval process. Additionally, we are presently receiving orders for systems that have lengthy delivery schedules, which may be due to longer production lead times or a result of customers' capacity scheduling requirements. For these and other reasons, our systems typically have a lengthy sales cycle during which we may expend substantial funds and management effort in securing a sale. Lengthy sales cycles subject us to a number of significant risks, including inventory obsolescence and fluctuations in operating results, over which we have little or no control. In order to maintain or exceed our present level of net sales, we are dependent upon obtaining orders for systems that will ship and be accepted in the current period. We may not be able to obtain those orders. Other important factors that could cause demand for our products to fluctuate include:

- competitive pressures, including pricing pressures, from companies that have competing products;
- our customers' or prospective customers' perception of one or more of our board members;
- changes in customer product needs or product preferences; and
- strategic actions taken by our competitors.

Our stock price has experienced significant volatility in the past and we expect this to continue in the future as a result of many factors, some of which could be unrelated to our operating performance, and such volatility can have a major impact on the number of shares subject to outstanding stock options and restricted stock units that are included in calculating our earnings per share.

We believe that factors such as announcements of developments related to our business, fluctuations in our operating results, a shortfall in revenue or earnings, changes in our or analysts' expectations, general conditions in the semiconductor and nanotechnology industries or the worldwide or regional economies, sales of our securities into the marketplace, our share repurchase program, an outbreak or escalation of hostilities, announcements of technological innovations or new products or enhancements by us or our competitors, developments in patents or other intellectual property rights and developments in our relationships with our customers and suppliers could cause the price of our common stock to fluctuate, perhaps substantially. The market price of our Common Stock has fluctuated significantly in the past and we expect it to continue to experience significant fluctuations in the future, including fluctuations that may be unrelated to our performance.

As of April 1, 2017 , we had outstanding options to purchase and outstanding restricted stock units for a total of 3.1 million shares of our common stock. Among other determinants, the market price of our stock has a major impact on the number of shares subject to outstanding stock options and restricted stock units that are included in the weighted-average shares used in determining our net income per share. During periods of extreme volatility, the impact of higher stock prices can have a materially dilutive effect on our net income per share. Additionally, shares subject to outstanding options and restricted stock units are excluded from the calculation of net income per share when we have a net loss or when the exercise price and the average unrecognized compensation cost of the stock option or restricted stock unit is greater than the average market price of our common stock, as the impact of the stock options or restricted stock units would be anti-dilutive.

Our previously announced share repurchase program could affect the price of our common stock and increase volatility and may be suspended or terminated at any time, which may result in a decrease in the trading price of our common stock.

Repurchases pursuant to our share repurchase program could affect our stock price and increase its volatility. The existence of a share repurchase program could also cause our stock price to be higher than it would be in the absence of such a program and could potentially reduce the market liquidity for our stock. There can be no assurance that any share repurchases will enhance stockholder value because the market price of our common stock may decline below the levels at which we repurchased shares of common stock. Although our share repurchase program is intended to enhance long-term stockholder value, short-term stock price fluctuations could reduce the program's effectiveness. Furthermore, the program does not obligate the Company to repurchase any dollar amount or number of shares of common stock, and may be suspended or discontinued at any time and any suspension or discontinuation could cause the market price of our stock to decline.

We sell our products primarily to a limited number of customers and to customers in a limited number of industries, which subjects us to increased risks related to the business performance of our customers, and therefore their need for our products, and the business cycles of the markets into which we sell.

Historically, we have sold a substantial portion of our systems to a limited number of customers. In the three month period ended April 1, 2017 , our top five customers accounted for 72% of our system sales compared to 97% in the corresponding period of 2016 . We expect that sales to a relatively few customers will continue to account for a high percentage of our net sales in the foreseeable future and believe that our financial results depend in significant part upon the success of these major customers and our ability to meet their future capital equipment needs. Although the composition of the group comprising our largest customers may vary from period to period, the loss of a significant customer or any reduction or delay in orders by a significant customer, including reductions or delays due to market, economic or competitive conditions in the semiconductor, semiconductor packaging, semiconductor inspection or nanotechnology industries or in the industries that manufacture products utilizing integrated circuits, MEMS or other nanotechnology components, would likely have a material adverse effect on our business, financial condition and results of operations. Our ability to maintain or increase our sales in the future depends, in part, on our ability to obtain orders from new customers as well as the financial condition and success of our existing customers, the semiconductor and nanotechnology industries and the economy in general.

In addition to the business risks associated with dependence on a few major customers, these significant customer concentrations have in the past resulted in significant concentrations of accounts receivable. These significant and concentrated receivables expose us to additional risks, including the risk of default by one or more customers representing a significant portion of our total receivables. If we were required to take additional accounts receivable reserves, our business, financial condition and results of operations would be materially adversely affected.

On a market application basis, sales to the semiconductor industry, primarily for advanced packaging applications and laser thermal processing applications accounted for 90% of our systems revenue for the three month period ended April 1, 2017 as compared to 98% of our systems revenue for the corresponding period in 2016 . We had $4.9 million of sales to nanotechnology manufacturers, including micro systems, MEMS and ALD for the three month period ended April 1, 2017 , as compared to $0.9 million in sales for the corresponding period of 2016 . Systems revenue from the nanotechnology sector accounted for 10% of systems revenue for the three month period ended April 1, 2017 , as compared to 2% of systems revenue for the corresponding period in 2016 . Our future operating results and financial condition would be materially adversely impacted by a downturn in any of these industries, or by loss of market share in any of these industries. A growing percentage of our backlog of system orders is comprised of laser thermal processing tools. As our laser thermal processing tools are used for the continuation of reduced device geometries and customers seldom provide us with their future technical requirements, these tools may not meet all customers' requirements upon initial delivery and installation at the customer's facility. As a result, system acceptance of the tool could be delayed while we perform testing and attempt to meet their requirements, or the order could be cancelled if we are unable to meet those requirements. Should significant demand not materialize, due to technical, production, market or other factors, our business, financial position and results of operations would be materially adversely impacted.

We rely on a limited number of outside suppliers and subcontractors to manufacture certain components and subassemblies, and on single or a limited group of outside suppliers for certain materials for our products, which could result in a potential inability to obtain an adequate supply of required components due to quality problems, the suppliers' failure or inability to provide such components in a timely manner, or at all, and reduced control over pricing and timely delivery of components and materials, any of which could adversely affect our results of operations.

Our manufacturing activities consist of assembling and testing components and subassemblies, which are then integrated into finished systems. We rely on a limited number of outside suppliers and subcontractors to manufacture certain components and subassemblies. We order one of the most critical components of our technology, the glass for our 1X lenses, from external suppliers. We design the 1X lenses and provide the lens specifications and the glass to other suppliers, who then grind and polish the lens elements. We then assemble and test the optical 1X lenses.

We procure some of our other critical systems' components, subassemblies and services from single outside suppliers or a limited group of outside suppliers in order to ensure overall quality and timeliness of delivery. Many of these components and subassemblies have significant production lead times. To date, we have been able to obtain adequate services and supplies of components and subassemblies for our systems in a timely manner. However, disruption or termination of certain of these sources could have a significant adverse impact on our ability to manufacture our systems. In addition, our failure to timely use components in our manufacturing processes due to delays or cancellation of orders or quality problems requiring us to return components may lead to write downs of inventory. A disruption in supply or inventory window would, in turn, cause us to miss or delay shipments and would increase costs causing a material adverse effect on our business, financial condition and results of operations. Our reliance on a sole supplier or a limited group of suppliers and our reliance on subcontractors involve several risks, including a potential inability to obtain an adequate supply of required components due to the suppliers' failure or inability to provide such components in a timely manner, to our quality standards, or at all, and reduced control over pricing and timely delivery of components. Manufacture of certain of these components and subassemblies is an extremely complex process, and long lead-times are required. Any inability to obtain adequate deliveries or any other circumstance that would require us to seek alternative sources of supply or to manufacture such components internally could delay our ability to ship our products, which could damage relationships with current and prospective customers and have a material adverse effect on our business, financial condition and results of operations.

Our industry is subject to rapid technological change and product innovation, which could result in our technologies and products being replaced by those of our competitors, which would adversely affect our business and results of operations.

The semiconductor and nanotechnology manufacturing industries are subject to rapid technological change, evolving industry standards and new product introductions and enhancements. Our ability to be competitive in these and other markets will depend, in part, upon our ability to develop new and enhanced systems and related applications, and to introduce these systems and related applications at competitive prices and on a timely and cost-effective basis to enable customers to integrate them into their operations either prior to or as they begin volume product manufacturing. We will also be required to enhance the performance of our existing systems and related applications. Our success in developing new and enhanced systems and related applications depends upon a variety of factors, including product selection, timely and efficient completion of product design, timely and efficient implementation of manufacturing and assembly processes, product performance in the field and effective sales and marketing. Product failures may result in customer dissatisfaction, high service and support costs, rework and increased inventory. Because new product development commitments must be made well in advance of sales, new product decisions must anticipate both future customer requirements and the technology that will be available to meet those requirements. We may not be successful in selecting, developing, manufacturing or marketing new products and related applications or enhancing our existing products and related applications. Any such failure would materially adversely affect our business, financial condition and results of operations. Further, we have in the past and may in the future make substantial investments in new products before we know whether they are technically feasible or commercially viable, and as a result may incur significant product development expenses that do not result in new products or revenues.

Because of the large number of components in our systems, significant delays can occur between a system's introduction and our commencement of volume production of such systems. We have experienced delays from time to time in the introduction of, and technical and manufacturing difficulties with, certain of our systems and enhancements and related application tools features and options, and may experience delays and technical and manufacturing difficulties in future introductions or volume production of new systems or enhancements and related application tools features and options.

We may encounter additional technical, manufacturing or other difficulties that could further delay future introductions or volume production of systems or enhancements. Our inability to complete the development or meet the technical specifications of any of our systems or enhancements and related applications, or our inability to manufacture and ship these systems or enhancements and related tools in volume and in time to meet the requirements for manufacturing the future generation of semiconductor or nanotechnology devices would materially adversely affect our business, financial condition and results of operations. In addition, we may incur substantial unanticipated costs to ensure the functionality and reliability of our products early in the products' life cycles. If new products have reliability or quality problems, reduced orders or higher manufacturing costs, delays in system acceptance, revenue recognition and collecting accounts receivable and additional service and warranty expenses may result. Any of such events may materially adversely affect our business, financial condition and results of operations.

We currently spend, and expect to continue to spend, significant resources to develop, introduce and commercialize our offered products and future generations of, and enhancements to these products. We may not be successful in the timely introduction of these products which may cause sales of these products to decrease or not increase as expected.

Currently, we are devoting significant resources to the development, introduction and commercialization of our laser thermal processing systems, and other products, and future generations of, and enhancements to, those products. We intend to continue to develop these products and technologies, and will continue to incur significant operating expenses in the areas of research, development and engineering, manufacturing and general and administrative costs in order to develop, produce and support these new products and enhancements. There can be no assurance that our expenditures to develop these products will result in improved sales or that markets for these products will become viable. Additionally, gross profit margins and inventory levels may be further adversely impacted in the future by costs associated with the initial production of new products. Introduction of new products generally involves higher installation costs and product performance uncertainties that could delay system acceptance of our systems, resulting in a delay in recognizing revenue associated with those systems and a reduction in gross margins. These costs include, but are not limited to, additional manufacturing overhead, additional inventory write-downs, costs of demonstration systems and facilities and costs associated with the establishment of additional after-sales support organizations. Additionally, operating expenses may increase, relative to sales, as a result of adding additional marketing and administrative personnel, among other costs, to support our new products. If we are unable to achieve significantly increased net sales or if our sales fall below expectations, our operating results could be materially adversely affected.

Our ability to commercialize our laser thermal processing technologies depends on our ability to demonstrate a manufacturing-worthy tool. We do not presently have in-house capability to fabricate devices. As a result, we must rely on partnering with semiconductor companies to develop the anneal process. The development of new process technologies is largely dependent upon our ability to interest potential customers in working on developing a process and providing timely and detailed feedback for system development. Our ability to deliver timely solutions is also limited by our customers understanding and communication of the future anneal requirements.

Changes in financial accounting standards or policies in the past have affected, and in the future may affect, our reported results of operations.

We prepare our financial statements in conformity with U.S. GAAP. These principles are subject to interpretation by the FASB, the American Institute of Certified Public Accountants (AICPA), the SEC and various bodies formed to interpret and create appropriate accounting policies. A change in those policies can have a significant effect on our reported results and may affect our reporting of transactions which are completed before a change is announced.

Accounting policies affecting many other aspects of our business, including rules relating to revenue recognition, off-balance sheet transactions, employee stock options and other equity awards, restructuring, asset disposals and asset retirement obligations, derivative and other financial instruments are regularly under review and subject to revision. Changes to those rules or the questioning of how we interpret or implement those rules may have a material adverse effect on our reported financial results or on the way we conduct business. In addition, our preparation of financial statements in accordance with U.S. GAAP requires that we make estimates and assumptions that affect the recorded amounts of assets and liabilities, disclosure of those assets and liabilities at the date of the financial statements and the recorded amounts of expenses during the reporting period. A change in the facts and circumstances surrounding those estimates could result in a change to our estimates and could impact our future operating results.

Our results of operations and business could be adversely affected by natural disasters, public health issues, political instability, wars, and other military action, as well as terrorist attacks and threats and government responses thereto, especially if any such actions were directed at us or our facilities or customers.

Public health issues, political instability, natural disasters, terrorist attacks in the United States and elsewhere, and government responses thereto, may disrupt our operations or those of our customers and suppliers and may affect the availability of materials needed to manufacture our products or the means to transport those materials to manufacturing facilities and finished products to customers. In addition, such events could disrupt the semiconductor market, resulting in the cancellation or delay of product orders. Significant public health issues could cause damage or disruption to international commerce by creating economic and political uncertainties that may have a significant negative impact on the global economy, us and our customers or suppliers. Should such incidents increase or other public health issues arise, we could be negatively impacted by the need for more stringent employee travel restrictions, additional limitations in the availability of freight services, governmental actions limiting the movement of products between various regions and disruptions in the operations of our customers or suppliers. Similarly, political instability could affect the ability of our suppliers to provide the materials needed in our operations or the cost of acquiring such materials. Any public health issues, political instability, natural disasters, terrorist attacks, or the ongoing war on terrorism or other wars could increase volatility in the United States and world financial markets which may depress the price of our common stock and may limit the capital resources available to us or our customers or suppliers, which could result in decreased orders from customers, less favorable financing terms from suppliers, and scarcity or increased costs of materials and components of our products. Additionally, if any of these events were to directly affect or be specifically directed at us, or occur in a country where we or our suppliers or our customers operate, our ability to conduct our business could be significantly disrupted. Any of these occurrences could have a significant impact on our operating results, revenues and costs and may result in increased volatility of the market price of our common stock.

We currently perform a significant amount of our manufacturing activities in cleanroom environments in San Jose, California, an area known for seismic activity. Performing manufacturing operations in California exposes us to a higher risk of natural disasters, including earthquakes. In addition, in the past California has experienced power shortages, which have interrupted our operations. Such shortages could occur in the future. Further, our suppliers and/or customers may operate in areas subject to natural disasters, the occurrence of which could affect their ability to continue to do business with us as expected or at all. An earthquake, other natural disaster, power shortage or other similar events could interrupt or otherwise limit our operations or those of our suppliers or customers resulting in product shipment delays, supply problems, cancellations or deferrals of product orders, increased costs and other problems, any of which could have a material adverse effect on our business, customer relationships and results of operations.

We continue to expand our manufacturing and service operations in Singapore and customer support operations in other parts of the world, which will continue to result in exposure to risks inherent in doing business outside the United States, any of which risks could harm our business, financial condition and operating results.

Foreign operations subject us to risks related to the political, economic, legal and other conditions of foreign jurisdictions. These risks include risks related to:

- foreign exchange rate fluctuations;
- the need to comply with foreign government laws and regulations, including the imposition of regulatory requirements, tariffs, and import and export restrictions;
- general geopolitical risks such as political and economic instability and changes in diplomatic and trade relationships;
- the need for effective management of dispersed operations far from our headquarters in California;
- the potential for strain on management resources;
- difficulty in hiring and retaining local personnel for the successful operation of our business in each location;
- the need to effectively manage personnel in different languages and under different cultural and legal expectations and requirements in certain locations;
- meeting growth objectives and employment projections;
- potentially less protection of intellectual property under the laws of foreign jurisdictions in certain locations; and
- public safety or health concerns or natural disasters in foreign countries.

These risks could, among other things, result in product shipment delays, increased costs, unexpected shutdowns or other business disruptions, or loss of benefits expected to be achieved by conducting operations in affected jurisdictions. Any of the above risks, should they occur, could have a material adverse effect on our business, financial condition and results of operations.

A substantial portion of our sales are outside of the United States, which subjects us to risks related to customer service, installation, foreign economic and political stability, uncertain regulatory and tax rules, and foreign exchange rate fluctuations, all of which make it more difficult to operate our business.

International sales accounted for approximately 89% of total net sales for the three month period ended April 1, 2017 , as compared to 94% of total net sales for the corresponding period of 2016. We anticipate that international sales will continue to account for a significant portion of total net sales. Although we generally transact our international sales in U.S. dollars, international sales expose us to a number of additional risk factors, including fluctuations in the value of local currencies relative to the U.S. dollar, which, in turn, impact the relative cost of ownership of our products and may further impact the purchasing ability of our international customers. We have direct sales operations in Japan and orders are often denominated in Japanese yen. This may subject us to a higher degree of risk from currency fluctuations. We attempt to mitigate this exposure through foreign currency hedging. We are also subject to the risks associated with the imposition of legislation and regulations relating to the import or export of semiconductors and nanotechnology products. We cannot predict whether the United States or any other country will implement changes to quotas, duties, taxes or other charges or restrictions upon the importation or exportation of our products. These factors, or the adoption of restrictive policies, may have a material adverse effect on our business, financial condition and results of operations. Additionally, by having a significant portion of our sales occur internationally, we are continually exposed to political and economic instability; difficulties in accounts receivable collections; reduced protection of intellectual property; natural disasters; difficulties in staffing and managing foreign subsidiary and branch operations; and potentially adverse tax consequences.

To better align with the increasingly international nature of our business, we transitioned certain manufacturing processes to Singapore, thereby bringing these activities closer to our Asia-based customers. This movement is somewhat recent and our experience in international manufacturing operations is not as extensive as in the U.S. If we are unable to continue to successfully operate the site to efficiently manufacture systems, our business, financial condition and results of operations could be materially adversely impacted.

If we acquire companies, products, or technologies, we may face risks associated with those acquisitions.

We may not realize the anticipated benefits of any acquisition or investment. Acquisitions involve numerous risks, including difficulties in the assimilation of the operations, technologies, personnel and products of the acquired companies; the diversion of management’s attention from other business concerns; risks of entering markets in which we have limited or no direct experience; and the potential loss of key employees of the acquired company. In the event we acquire product lines, technologies or businesses which do not complement our business, or which otherwise do not enhance our sales or operating results, we may incur substantial write-offs and higher recurring operating costs, which could have a material adverse effect on our business, financial condition and results of operations. We may, in the future, pursue additional acquisitions of complementary product lines, technologies or businesses. Future acquisitions may require use of substantial amounts of our cash, cash equivalents and short-term investments, result in potentially dilutive issuances of equity securities, the incurrence of debt and contingent liabilities and amortization expenses and impairment charges related to goodwill and other intangible assets, which could materially adversely affect our financial condition and results of operations. In the event that any such acquisition does occur, there can be no assurance as to the effect thereof on our business or operating results.

Changes in our effective tax rate may harm our results of operations.

A number of factors may negatively impact our future effective tax rates including, but not limited to:

- the jurisdictions in which profits are determined to be earned and taxed;
- changes in valuation of our deferred tax assets and liabilities;
- increases in expenses not deductible for tax purposes;
- changes in available tax credits;
- changes in stock-based compensation; and
- changes in tax laws or the interpretation of such tax laws and changes in generally accepted accounting principles in the United States or other countries in which we operate.

We are eligible for tax incentives that provide that certain income earned in Singapore would be subject to a tax holiday and/or reduced tax rates for a limited period of time under the laws of Singapore. Our ability to realize benefits from these initiatives could be materially affected if, among other things, applicable requirements are not met, the incentives are substantially modified, or if we incur losses for which we cannot take a deduction.

We may not be successful in protecting our intellectual property rights or we could be found to have infringed the intellectual property rights of others, either of which could weaken our competitive position and adversely affect our results of operations.

Although we attempt to protect our intellectual property rights through patents, copyrights, trade secrets and other measures, we believe that our success will depend more upon the innovation, technological expertise and marketing abilities of our employees. Nevertheless, we have a policy of seeking patents when appropriate on inventions resulting from our ongoing research and development and manufacturing activities. Our intellectual property portfolio has 1,245 patents and patent applications with expiration dates ranging from April 2017 to June 2035. In addition, we have various registered trademarks and copyright registrations covering mainly applications used in the operation of our systems. We also rely upon trade secret protection for our confidential and proprietary information. We may not be able to protect our technology adequately and competitors may be able to develop similar technology independently. Our pending patent applications may not be issued or U.S. or foreign intellectual property laws may not protect our intellectual property rights. In addition, litigation may be necessary to enforce our patents, copyrights or other intellectual property rights, to protect our trade secrets, to determine the validity and scope of the proprietary rights of others or to defend against claims of infringement. Such litigation has resulted in, and in the future could result in, substantial costs and diversion of resources and could have a material adverse effect on our business, financial condition and results of operations, regardless of the outcome of the litigation. Patents issued to us may be challenged, invalidated or circumvented and the rights granted thereunder may not provide competitive advantages to us. Furthermore, others may independently develop similar technology or products, or, if patents are issued to us, design around the patents issued to us. Invalidation of our patents related to those technologies, or the expiration of patents covering our key technologies, could allow our competitors to more effectively compete against us, which could result in less revenue for us.

We have from time to time been notified of claims that we may be infringing intellectual property rights possessed by third parties. We believe that the outcome of these matters will not be material to our business, results of operations or financial condition. Infringement claims by third parties or claims for indemnification resulting from infringement claims may be asserted in the future and such assertions could materially adversely affect our business, financial condition and results of operations, regardless of the outcome of any litigation. With respect to any such future claims, we may seek to obtain a license under the third party's intellectual property rights. However, a license may not be available on reasonable terms or at all. We could decide, in the alternative, to resort to litigation to challenge such claims. Such challenges could be expensive and time consuming and could materially adversely affect our business, financial condition and results of operations, regardless of the outcome of any litigation.

We use hazardous substances in the operation of our business, and any failure on our part to comply with applicable regulations or to appropriately control the use, disposal or storage of such substances could subject us to significant liabilities.

We are subject to a variety of governmental regulations relating to environment protection and workplace safety, including the use, storage, discharge, handling, emission, generation, manufacture and disposal of toxic or other hazardous substances. The failure to comply with current or future regulations could result in substantial fines being imposed on us, suspension of production, alteration of the manufacturing process or cessation of operations. Such regulations could require us to acquire expensive remediation equipment or to incur substantial expenses to comply with environmental regulations. Any failure by us to comply with these regulations, including any failure to control the use, disposal or storage of, or adequately restrict the discharge of, hazardous or toxic substances, could subject us to significant liabilities.

Our investment portfolio may suffer losses from changes in market interest rates and changes in market conditions, which could materially and adversely affect our financial condition, results of operations or liquidity.

As of April 1, 2017 , we had $274.2 million in cash, cash equivalents and short-term investments. We maintain an investment portfolio of cash equivalents and short-term investments in commercial paper and U.S. government-backed securities. These investments are subject to general credit, liquidity, and market and interest rate risks. Substantially all of these securities are subject to interest rate and credit risk and will decline in value if interest rates increase or one or more of the issuers' credit ratings is reduced. As a result of any of the foregoing, we may experience a reduction in value or loss of liquidity of our investments, which may have a negative adverse effect on our results of operations, liquidity and financial condition. We follow an established investment policy and set of guidelines to monitor, manage and limit our exposure to interest rate and credit risk. The policy sets forth credit quality standards and limits our exposure to any one issuer, as well as our maximum exposure to various asset classes.

Our restructuring activities may not achieve the results we expect and could change, which could materially and adversely affect our results of operations and financial condition.

From time to time, we may implement restructuring activities to reduce expenses, which includes a reduction in our workforce. There can be no assurance that our restructuring activities will produce the cost savings we anticipate in the expected timeframe or that the cumulative restructuring charge will not have to increase in order to achieve our cost savings targets. Any delay or failure to achieve the expected cost savings and any increase in our anticipated cumulative restructuring charge would likely cause our future earnings to be lower than anticipated.

Our equity incentive plans, certain provisions of our Certificate of Incorporation and Bylaws, and certain aspects of Delaware law may discourage third parties from pursuing a change of control transaction with us.

Certain provisions of our Certificate of Incorporation, equity incentive plans, licensing agreements, Bylaws and Delaware law may discourage certain transactions involving a change in control of our company. In addition to the foregoing, the shareholdings of our officers, directors and persons or entities that may be deemed affiliates and the ability of our Board of Directors to issue "blank check" preferred stock without further stockholder approval could have the effect of delaying, deferring or inhibiting us from experiencing a change in control and may adversely affect the voting and other rights of holders of our common stock.

We are subject to laws, regulations and similar requirements, changes to which may adversely affect our business and operations.

We are subject to laws, regulations and similar requirements that affect our business and operations, including, but not limited to, the areas of commerce, import and export control, intellectual property, income and other taxes, anti-trust, anti-corruption, labor, environmental, health and safety. Our compliance in these areas may be costly, especially in areas where there are inconsistencies between the various jurisdictions in which we operate. While we have implemented policies and procedures to comply with various laws and regulations, there can be no assurance that our employees, contractors, suppliers or agents will not violate such laws and regulations or our policies. Any such violation or alleged violation could materially and adversely affect our business. Any changes or potential changes to laws, regulations or similar requirements, or our ability to respond to these changes, may significantly increase our costs to maintain compliance or result in our decision to limit our business, products or jurisdictions in which we operate, any of which could materially and adversely affect our business and operations.

The Dodd-Frank Wall Street Reform and Consumer Protection Act includes provisions regarding certain minerals and metals, known as conflict minerals, mined from the Democratic Republic of Congo and adjoining countries. These provisions require companies to undertake due diligence procedures and reports on the use of conflict minerals in its products, including products manufactured by third parties. Compliance with these provisions will cause us to incur costs to certify that our supply chain is conflict free and we may face difficulties in complying with the law if our suppliers are unwilling or unable to verify the source of their materials. Our ability to source parts containing these metals and minerals may be adversely impacted. In addition, our customers may require that we provide them with a certification and our inability to do so may disqualify us as a supplier.

We hold cash and cash equivalents at various foreign subsidiaries that may not be readily available to meet domestic cash requirements.

Our various foreign subsidiaries hold cash and cash equivalents and as we intend to reinvest certain foreign earnings indefinitely, these balances held outside the United States may not be readily available to meet our domestic cash requirements. We require a substantial amount of cash in the United States for operating requirements, purchases of property and equipment, and potentially for future acquisitions. If we are unable to meet our domestic cash requirements using domestic cash flows from operations, or domestic cash and cash equivalents, it may be necessary for us to consider repatriation of earnings that we have designated as permanently reinvested. We may also be required to repatriate cash held outside the United States to meet the closing condition of having not less than $180 million of cash on hand in the United States at the time of the closing of the Merger. The repatriation of earnings may require us to record additional income tax expense and remit additional taxes, which could have a material adverse effect on our results of operations, cash flows and financial condition.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

None.

Item 5. Other Information

None.

Item 6. Exhibits

3.1(a)	Amended and Restated Certificate of Incorporation of the Company, filed October 6, 1993.
3.1.1(a)	Certificate of Amendment of the Amended and Restated Certificate of Incorporation of the Company, filed May 17, 1995.
3.1.2(a)	Certificate of Amendment of the Amended and Restated Certificate of Incorporation of the Company, filed June 17, 1998.
3.1.3(a)	Certificate of Amendment of the Amended and Restated Certificate of Incorporation of the Company, filed June 20, 2003.
3.1.4(b)	Certificate of Amendment of the Amended and Restated Certificate of Incorporation of the Company, filed August 31, 2009.
3.1.5(c)	Certificate of Amendment of the Amended and Restated Certificate of Incorporation of the Company, filed August 6, 2012.
3.2.1(d)	Amended and Restated Bylaws of the Company
3.2.2(e)	Amendment to the Amended and Restated Bylaws of the Company
10.1(f)	Form of Change in Control Severance Agreement between Registrant and Tammy Landon
10.2(f)	Form of Change in Control Severance Agreement between Registrant and Dave Ghosh
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document
31.1	Certification of Chief Executive Officer required pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer required pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1*	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(a) Previously filed with our Quarterly Report on Form 10-Q for the quarter ended June 28, 2003 (Commission File No. 0-22248) and incorporated herein by reference.
(b) Previously filed with our Quarterly Report on Form 10-Q for quarter ended October 3, 2009 (Commission File No. 0-22248) and incorporated herein by reference.
(c) Previously filed with our Quarterly Report on Form 10-Q for the quarter ended June 29, 2013 (Commission File No. 0-22248) and incorporated herein by reference.
(d) Previously filed with our Current Report on Form 8-K filed on April 17, 2012 (Commission File No. 0-22248) and incorporated herein by reference.
(e) Previously filed with our Current Report on Form 8-K on July 21, 2016 (Commission File No. 0-22248) and incorporated herein by reference.
(f) Previously filed with our Annual Report on Form 10-K on March 1, 2017 (Commission File No. 0-22248) and incorporated herein by reference.

* Exhibit 32.1 is being furnished and shall not be deemed to be filed for purposes of Section 18 of the Exchange Act, or otherwise subject to the liability of that section, nor shall such exhibit be deemed to be incorporated by reference in any registration statement or other document filed under the Securities Act, or the Exchange Act, except as otherwise stated in such filing.

SIGNATURES

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

ULTRATECH, INC.
(Registrant)

Date:	April 28, 2017	By:	/s/ BRUCE WRIGHT
			Bruce Wright
			Senior Vice President, Finance and Chief Financial Officer (Duly Authorized Officer and Principal Financial and Accounting Officer)

EXHIBIT INDEX

3.1(a)	Amended and Restated Certificate of Incorporation of the Company, filed October 6, 1993.
3.1.1(a)	Certificate of Amendment of the Amended and Restated Certificate of Incorporation of the Company, filed May 17, 1995.
3.1.2(a)	Certificate of Amendment of the Amended and Restated Certificate of Incorporation of the Company, filed June 17, 1998.
3.1.3(a)	Certificate of Amendment of the Amended and Restated Certificate of Incorporation of the Company, filed June 20, 2003.
3.1.4(b)	Certificate of Amendment of the Amended and Restated Certificate of Incorporation of the Company, filed August 31, 2009.
3.1.5(c)	Certificate of Amendment of the Amended and Restated Certificate of Incorporation of the Company, filed August 6, 2012
3.2(d)	Amended and Restated Bylaws of the Company
3.2.2(e)	Amendment to the Amended and Restated Bylaws of the Company
10.1(f)	Form of Change in Control Severance Agreement between Registrant and Tammy Landon
10.2(f)	Form of Change in Control Severance Agreement between Registrant and Dave Ghosh
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document
31.1	Certification of Chief Executive Officer required pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer required pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1*	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(a) Previously filed with our Quarterly Report on Form 10-Q for the quarter ended June 28, 2003 (Commission File No. 0-22248) and incorporated herein by reference.
(b) Previously filed with our Quarterly Report on Form 10-Q for the quarter ended October 3, 2009 (Commission File No. 0-22248) and incorporated herein by reference.
(c) Previously filed with our Quarterly Report on Form 10-Q for the quarter ended June 29, 2013 (Commission File No. 0-22248) and incorporated herein by reference.
(d) Previously filed with our Current Report on Form 8-K on April 17, 2012 (Commission File No. 0-22248) and incorporated herein by reference.
(e) Previously filed with our Current Report on Form 8-K on July 21, 2016 (Commission File No. 0-22248) and incorporated herein by reference.
(f) Previously filed with our Annual Report on Form 10-K on March 1, 2017 (Commission File No. 0-22248) and incorporated herein by reference.

* Exhibit 32.1 is being furnished and shall not be deemed to be filed for purposes of Section 18 of the Exchange Act, or otherwise subject to the liability of that section, nor shall such exhibit be deemed to be incorporated by reference in any registration statement or other document filed under the Securities Act, or the Exchange Act, except as otherwise stated in such filing.

Exhibit 31.1

I, Arthur Zafiropoulo, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Ultratech, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: April 28, 2017

/s/ ARTHUR ZAFIROPOULO

Arthur Zafiropoulo

Chief Executive Officer

Exhibit 31.2

I, Bruce Wright, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Ultratech, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date:	April 28, 2017	/s/ BRUCE WRIGHT
		Bruce Wright
		Chief Financial Officer

Exhibit 32.1

**CERTIFICATIONS OF CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER
PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

I, Arthur Zafiropoulo, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

- the Quarterly Report of Ultratech, Inc. on Form 10-Q for the period ended April 1, 2017 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- the information contained in such Quarterly Report fairly presents in all material respects the financial condition and results of operations of Ultratech, Inc.

By: /s/ ARTHUR ZAFIROPOULO Date: April 28, 2017

Name: Arthur Zafiropoulo

Title: Chief Executive Officer

I, Bruce Wright, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

- the Quarterly Report of Ultratech, Inc. on Form 10-Q for the period ended April 1, 2017 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- the information contained in such Quarterly Report fairly presents in all material respects the financial condition and results of operations of Ultratech, Inc.

By: /s/ BRUCE WRIGHT Date: April 28, 2017

Name: Bruce Wright

Title: Chief Financial Officer

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* A signed original of this written statement required by Section 906 has been provided to Ultratech, Inc. and will be retained by Ultratech, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.