Ultra Clean Holdings, Inc.
Form 10-Q
November 04, 2015
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

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

For the quarterly period ended September 25, 2015

or

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

For the transition period from __________ to __________

Commission file number 000-50646

Ultra Clean Holdings, Inc.

(Exact name of registrant as specified in its charter)

Delaware	**61-1430858**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
26462 Corporate Avenue, Hayward, California	**94545**
(Address of principal executive offices)	**(Zip Code)**

(510) 576-4400

Registrant s telephone number, including area code

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

Indicate by check mark 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 (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x 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 definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	¨	Accelerated filer	x
Non-accelerated filer	¨ (Do not check if a smaller reporting company)	Smaller reporting company	¨

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

Number of shares outstanding of the issuer s common stock as of October 23, 2015: 32,254,217

Table of Contents

ULTRA CLEAN HOLDINGS, INC.

TABLE OF CONTENTS

Table of Contents

PART I. FINANCIAL INFORMATION

ITEM 1. Financial Statements

ULTRA CLEAN HOLDINGS, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited; in thousands, except share and per share amounts)

	September 25, 2015	December 26, 2014
ASSETS		
Current assets:		
Cash and cash equivalents	$ 59,783	$ 78,997
Accounts receivable, net of allowance of $132 and $81 in 2015 and 2014, respectively	57,534	61,817
Inventory	75,564	56,850
Deferred tax assets, net of valuation allowance	3,976	3,777
Prepaid expenses and other	8,522	7,006
Total current assets	205,379	208,447
Equipment and leasehold improvements, net	16,968	10,841
Goodwill	84,495	55,918
Purchased intangibles, net	44,952	16,824
Deferred tax assets, net of valuation allowance	3,607	3,445
Other non-current assets	705	667
Total assets	$ 356,106	$ 296,142
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Bank borrowings	$ 11,207	$ 9,541
Accounts payable	47,503	48,944
Accrued compensation and related benefits	5,882	5,308
Deferred rent, current portion	562	245
Other current liabilities	5,371	2,130
Total current liabilities	70,525	66,168
Bank borrowings, net of current portion	65,716	38,614
Deferred tax liability	1,743	105
Deferred rent and other liabilities	3,283	2,703

Total liabilities		141,267		107,590
Commitments and contingencies (See Note 9)				
Stockholders equity:				
Preferred stock $0.001 par value, 10,000,000 authorized; none outstanding				
Common stock $0.001 par value, 90,000,000 authorized; 32,251,550 and 29,562,338 shares issued and outstanding in 2015 and 2014, respectively		32		30
Additional paid-in capital		174,390		153,141
Common shares held in treasury, at cost, 601,944 shares in 2015 and 2014		(3,337)		(3,337)
Retained earnings		43,774		38,718
Accumulated other comprehensive income		(20)		
Total stockholders equity		214,839		188,552
Total liabilities and stockholders equity	$	356,106	$	296,142

(See accompanying notes to condensed consolidated financial statements)

Table of Contents

ULTRA CLEAN HOLDINGS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited; in thousands, except per share data)

	Three months ended		Nine months ended	
	September 25, 2015	September 26, 2014	September 25, 2015	September 26, 2014
Sales	$ 122,816	$ 117,041	$ 365,683	$ 393,942
Cost of goods sold	103,868	106,734	307,994	339,172
Gross profit	18,948	10,307	57,689	54,770
Operating expenses:				
Research and development	2,352	1,806	7,319	5,371
Sales and marketing	2,844	2,493	8,494	7,746
General and administrative	10,673	9,971	32,721	28,395
Total operating expenses	15,869	14,270	48,534	41,512
Income (loss) from operations	3,079	(3,963)	9,155	13,258
Interest and other income (expense), net	(756)	(437)	(2,071)	(1,520)
Income (loss) before provision for income taxes	2,323	(4,400)	7,084	11,738
Income tax provision	647	862	2,028	3,913
Net income (loss)	$ 1,676	$ (5,262)	$ 5,056	$ 7,825
Net income (loss) per share:				
Basic	$ 0.05	$ (0.18)	$ 0.16	$ 0.27
Diluted	$ 0.05	$ (0.18)	$ 0.16	$ 0.26
Shares used in computing net income (loss) per share:				
Basic	31,993	29,477	31,359	29,242
Diluted	32,155	29,477	31,653	29,912

(See accompanying notes to condensed consolidated financial statements)

Table of Contents

ULTRA CLEAN HOLDINGS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited; in thousands)

	Three months ended		Nine months ended	
	September 25, 2015	September 26, 2014	September 25, 2015	September 26, 2014
Net income (loss)	$ 1,676	$ (5,262)	$ 5,056	$ 7,825
Other comprehensive income (loss):				
Change in foreign currency translation	67		67	
Cash flow hedges:				
Change in fair value of derivatives	(91)		(91)	
Adjustment for net (gains) losses realized and included in net income	4		4	
Total change in unrealized (gains) losses on derivative instruments	(87)		(87)	
Total other comprehensive loss	(20)		(20)	
Total comprehensive income (loss)	$ 1,656	$ (5,262)	$ 5,036	$ 7,825

(See accompanying notes to condensed consolidated financial statements)

Table of Contents

ULTRA CLEAN HOLDINGS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited; in thousands)

	Nine months ended September 25, 2015	Nine months ended September 26, 2014
Cash flows from operating activities:		
Net income	$ 5,056	$ 7,825
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	3,447	2,248
Amortization of finite lived intangibles	4,042	3,663
Amortization of debt issuance costs	790	366
Stock-based compensation	2,607	3,169
Excess tax benefit from stock-based compensation	809	
Changes in assets and liabilities, net of effects of acquisitions:		
Accounts receivable	7,416	9,991
Inventory	(11,071)	8,589
Prepaid expenses and other	(1,300)	(1,808)
Deferred income taxes	(196)	1,810
Other non-current assets	(12)	209
Accounts payable	(8,180)	(11,375)
Accrued compensation and related benefits	132	(659)
Income taxes payable	(809)	
Other liabilities	1,712	151
Net cash provided by operating activities	4,443	24,179
Cash flows from investing activities:		
Payments made in connection with business acquisitions, net	(44,495)	
Purchases of equipment and leasehold improvements	(5,196)	(2,066)
Disposal of equipment and leasehold improvements		143
Net cash used in investing activities	(49,691)	(1,923)
Cash flows from financing activities:		
Proceeds from bank borrowings	76,981	35,500
Proceeds from issuance of common stock	2,307	1,833
Principal payments on bank borrowings	(51,509)	(43,500)
Payments of debt issuance costs	(611)	
Excess tax benefit from stock-based compensation	(809)	
Employees taxes paid upon vesting of restricted stock units	(331)	(1,357)
Net cash provided (used) in financing activities	26,028	(7,524)

Effect of exchange rate changes on cash and cash equivalents		6		
Net increase (decrease) in cash	$	(19,214)	$	14,732
Cash and cash equivalents at beginning of period		78,997		60,415
Cash and cash equivalents at end of period	$	59,783	$	75,147
Supplemental items:				
Cash paid during the period:				
Income taxes paid	$	2,611	$	2,942
Income tax refunds	$		$	1,356
Interest	$	1,776	$	1,625
Non-cash activities:				
Fair value of common shares issued for acquisition	$	17,661	$	
Fair value of earn-out payments related to Miconex acquisition	$	1,280		
Equipment and leasehold improvements purchased included in accounts payable	$	3,531	$	37

(See accompanying notes to condensed consolidated financial statements)

ULTRA CLEAN HOLDINGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Organization and Significant Accounting Policies

Organization Ultra Clean Holdings, Inc. (the Company or UCT) was founded in November 2002 for the purpose of acquiring Ultra Clean Technology Systems and Service Inc. Ultra Clean Technology Systems and Service, Inc. was founded in 1991 by Mitsubishi Corporation and was operated as a subsidiary of Mitsubishi until November 2002, when it was acquired by UCT. UCT became a publicly traded company in March 2004. In June 2006, the Company completed the acquisition of Sieger Engineering, Inc. to enhance its position as a subsystem supplier to the semiconductor, research, flat panel, energy and medical equipment industries. Ultra Clean Technology (Shanghai) Co., Ltd and Ultra Clean Micro-Electronics Equipment (Shanghai) Co., Ltd. were established in 2005 and 2007, respectively, to facilitate the Company s operations in China. Ultra Clean Asia Pacific, Pte, Ltd. (Singapore) was established in fiscal year 2008 to facilitate the Company s operations in Singapore. In July 2012, UCT acquired American Integration Technologies LLC (AIT) to add to the Company s existing customer base in the semiconductor and medical spaces and to provide additional manufacturing capabilities. In November 2014, the Company launched Prototype Asia, its 3D printing business in Singapore, to develop additive manufacturing capabilities for the Company s customer base. In February 2015, UCT acquired Marchi Thermal Systems, Inc. (Marchi), a designer and manufacturer of specialty heaters, thermocouples and temperature controllers. Marchi delivers flexible heating elements and thermal solutions to our customers. The Company believes heaters are increasingly critical in equipment design for the most advanced semiconductor nodes. In July 2015, UCT acquired MICONEX s.r.o. (Miconex), a privately-held provider of advanced precision fabrication of plastics, primarily for the semiconductor industry that, initially, is expected to expand the Company s capabilities with existing customers.

The Company is a global leader in the design, engineering, and manufacture of production tools, modules and subsystems for the semiconductor capital equipment industry and industry segments with similar requirements including consumer, medical and flat panel display. The Company focuses on providing specialized engineering and manufacturing solutions for these applications. The Company enables its customers to realize lower manufacturing costs and reduced design-to-delivery cycle times while maintaining high quality standards.

The Company provides its customers with complete solutions that combine its expertise in design, scan, assembly, test and component characterization. The Company s customers value its highly flexible global manufacturing operations, its excellence in quality control and its scale and financial stability. The Company s global footprint enables the Company to reduce manufacturing costs and design-to-delivery cycle times and maintains high quality standards for the Company s customers. The Company believes that these characteristics allow the Company to provide global solutions for its customers growing product demands. The Company ships the majority of its products to U.S. registered customers with locations both in and outside the U.S. In addition to its U.S. manufacturing capabilities, the Company manufactures products in its Asian facilities to support local and U.S. based customers. The Company conducts its operating activities primarily through its wholly owned subsidiaries, Ultra Clean Technology Systems and Service, Inc., AIT LLC, Ultra Clean Technology (Shanghai) Co., Ltd., Ultra Clean Micro-Electronics Equipment (Shanghai) Co., Ltd., Ultra Clean Asia Pacific, Pte Ltd. (Singapore), Marchi and Miconex. The Company s international sales represented 35.6% and 30.7% of total sales for the three months ended September 25, 2015 and September 26, 2014, respectively, and 33.3% and 29.5% of total sales for the nine months ended September 25, 2015 and September 26, 2014, respectively. See Note 10 to the Company s Condensed Consolidated Financial Statements for further information about the Company s geographic areas.

Basis of Presentation The unaudited condensed consolidated financial statements included in this quarterly report on Form 10-Q include the accounts of the Company and its wholly-owned subsidiaries and have been prepared in accordance with U.S. generally accepted accounting principles (GAAP). This financial information reflects all adjustments which are, in the opinion of the Company, normal, recurring and necessary for the fair financial statement presentation for the dates and periods presented. Certain information and footnote disclosures normally included in our annual financial statements, prepared in accordance with GAAP, have been condensed or omitted. The Company s December 26, 2014 balance sheet data were derived from its audited financial statements as of that date.

Table of Contents

Principles of Consolidation The Company s condensed consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries and all intercompany accounts and transactions have been eliminated in consolidation. The Company uses a 52-53 week fiscal year ending on the Friday nearest December 31. All references to quarters refer to fiscal quarters and all references to years refer to fiscal years.

Foreign Currency Translation and Remeasurement The Company has one foreign subsidiary whose functional currency is not its local currency or the U.S. dollar. The Company remeasures the monetary assets and liabilities of this subsidiary into its functional currency. Gains and losses from these remeasurements are recorded in interest and other income (expense), net. The Company then translates the assets and liabilities of this subsidiary into the US dollar. Gains and losses from these translations are recognized in foreign currency translation included in the accumulated other comprehensive income (AOCI) in stockholders equity. For the Company s foreign subsidiaries where the U.S. dollar is the functional currency, any gains and losses resulting from the translation of the assets and liabilities of these subsidiaries are recorded in interest and other income (expense), net.

Use of Accounting Estimates The presentation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosures of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Such estimates and assumptions include reserves on accounts receivable and inventory, valuation of deferred tax assets and impairment of goodwill and other long-lived assets. The Company bases its estimates and judgments on historical experience and on various other assumptions that it believes are reasonable under the circumstances. However, future events are subject to change and the best estimates and judgments may require adjustment. Actual amounts may differ from those estimates.

Certain Significant Risks and Uncertainties The Company operates in a dynamic industry and, accordingly, can be affected by a variety of factors. For example, any of the following areas could have a negative effect on the Company in terms of its future financial position, results of operations or cash flows: the general state of the global economy, the highly cyclical nature of the industries the Company serves; the loss or bankruptcy of any customers within the Company s small customer base; ability to obtain additional financing if needed; inability to meet certain debt covenants; failure to successfully integrate completed acquisitions; ineffectiveness in pursuing acquisition opportunities; regulatory changes; fundamental changes in the technology underlying semiconductor, flat panel, solar and medical device manufacturing processes or manufacturing equipment that the Company fails to be prepared for; the hiring, training and retention of key employees; successful and timely completion of product design efforts; and new product design introductions by competitors.

Concentration of Credit Risk Financial instruments which subject the Company to concentrations of credit risk consist principally of cash and cash equivalents and accounts receivable. The Company sells its products primarily to semiconductor capital equipment manufacturers in the United States. The Company performs credit evaluations of its customers financial condition and generally requires no collateral.

Significant sales to customers The Company s most significant customers (having accounted for 10% or more of sales) and their related sales as a percentage of total sales were as follows:

	Three months ended		**Nine months ended**	
	September 25, 2015	**September 26, 2014**	**September 25, 2015**	**September 26, 2014**

Lam Research Corporation	49.4%	39.3%	50.4%	36.0%
Applied Materials, Inc.	26.4	20.9	27.1	22.0
ASM International	*	13.9	*	17.0
Total	75.8%	74.1%	77.5%	75.0%

* Total sales for the period are below 10%.

Three customers accounts receivable balances, Applied Materials, Inc., Lam Research Corporation and ASM International, were individually greater than 10% of accounts receivable as of September 25, 2015 and December 26, 2014 and in the aggregate represented approximately 79.9% and 73.7% of accounts receivable, respectively.

Fair Value of Measurements The Company measures its cash equivalents, foreign currency and interest rate derivative contracts at fair value on a recurring basis. Fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that is determined based on assumptions that market participants would use in pricing an asset or a liability. Assets and liabilities recorded at fair value are measured and classified in accordance with a three-tier fair value hierarchy based on the observability of the inputs available in the market used to measure fair value:

Level 1 Observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 Inputs that are based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant inputs are observable in the market or can be derived from observable market data. Where applicable, these models project future cash flows and discount the future amounts to a present value using market-based observable inputs including interest rate curves, foreign exchange rates, and credit ratings.

Level 3 Unobservable inputs that are supported by little or no market activities.

The fair value hierarchy requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

Derivative Financial Instruments The Company recognizes derivative instruments as either assets or liabilities in the accompanying Consolidated Balance Sheets at fair value. The Company records changes in the fair value of the derivatives in the accompanying Condensed Consolidated Statements of Income as interest and other income, net, or as a component of AOCI in the accompanying Condensed Consolidated Balance Sheets.

Inventories Inventories are stated at the lower of standard cost (which approximates actual cost on a first-in, first-out basis) or market. The Company evaluates the valuation of all inventories, including raw materials, work-in-process, finished goods and spare parts on a periodic basis. Obsolete inventory or inventory in excess of management s estimated usage is written-down to its estimated market value less costs to sell, if less than its cost. Inherent in the estimates of market value are management s estimates related to economic trends, future demand for products, and technological obsolescence of the Company s products.

Inventory write downs inherently involve judgments as to assumptions about expected future demand and the impact of market conditions on those assumptions. Although the Company believes that the assumptions it used in estimating inventory write downs are reasonable, significant changes in any one of the assumptions in the future could produce a significantly different result. There can be no assurances that future events and changing market conditions will not result in significant increases in inventory write downs.

Equipment and Leasehold Improvements Equipment and leasehold improvements are stated at cost, or, in the case of equipment under capital leases, the present value of future minimum lease payments at inception of the related lease. Depreciation and amortization are computed using the straight-line method over the lesser of the estimated useful lives of the assets or the terms of the leases. Useful lives range from three to fifteen years.

Product Warranty The Company provides warranties on its products for a period of up to two years and provides for warranty costs at the time of sale based on historical activity. The determination of such provisions requires the Company to make estimates of product return rates and expected costs to repair or replace the products under warranty. If actual return rates and/or repair and replacement costs differ significantly from these estimates, adjustments to cost of sales may be required in future periods. Components of the reserve for warranty costs consisted of the following (in thousands):

Table of Contents

	Nine months ended	
	September 25, 2015	September 26, 2014
Beginning balance	$ 109	$ 101
Change in reserve	300	97
Warranty costs incurred in the current period	(225)	(85)
Ending balance	$ 184	$ 113

Income Taxes The Company utilizes the asset and liability method of accounting for income taxes, under which deferred taxes are determined based on the temporary differences between the financial statement and tax basis of assets and liabilities using tax rates expected to be in effect during the years in which the basis differences reverse. Deferred income taxes arise from temporary differences between the tax basis of assets and liabilities and their reported amounts in the financial statements, which will result in taxable or deductible amounts in the future. In evaluating our ability to realize our deferred tax assets within the jurisdiction from which they arise, we consider all available positive and negative evidence, including scheduled reversals of deferred tax liabilities, projected future taxable income, tax-planning strategies, and results of recent operations. In projecting future taxable income, we begin with historical results and incorporate assumptions about the amount of future state, federal, and foreign pretax operating income adjusted for items that do not have tax consequences. The assumptions about future taxable income require significant judgment and are consistent with the plans and estimates we are using to manage the underlying businesses. In evaluating the objective evidence that historical results provide, we consider recent cumulative income (loss). A valuation allowance is recorded when it is more likely than not that some of the deferred tax assets will not be realized.

The Company continued to maintain a full valuation allowance on its California, Oregon, and one of its Chinese subsidiaries deferred tax amounts as of September 25, 2015 totaling $3.2 million. Income tax positions must meet a more likely than not recognition threshold to be recognized. Income tax positions that previously failed to meet the more likely than not threshold are recognized in the first subsequent financial reporting period in which that threshold is met. Previously recognized tax positions that no longer meet the more likely than not threshold are derecognized in the first subsequent financial reporting period in which that threshold is no longer met. The Company recognizes potential accrued interest and penalties related to unrecognized tax benefits within the consolidated statements of income as income tax expense. The calculation of tax liabilities involves significant judgment in estimating the impact of uncertainties in the application of complex tax laws. Resolution of these uncertainties in a manner inconsistent with the Company s expectations could have a material impact on its results of operations and financial position. Management believes that it has adequately provided for any adjustments that may result from these examinations; however, the outcome of tax audits cannot be predicted with certainty.

The determination of the Company s tax provision is subject to judgments and estimates.

Revenue Recognition Product revenue is generally recorded upon shipment. When arrangements specify title transfer upon delivery, revenue is not recognized until the product is delivered. The Company recognizes revenue when persuasive evidence of an arrangement exists, shipment has occurred, price is fixed or determinable and collectability is reasonably assured. If the Company has not substantially completed a product or fulfilled the terms of a sales agreement at the time of shipment, revenue recognition is deferred until fulfillment. The Company s standard arrangement for its customers includes a signed purchase order or contract, no right of return of delivered products and no customer acceptance provisions. The Company assesses collectability based on the credit worthiness of the customer and past transaction history. The Company continually performs credit evaluations of its customers and, if necessary, may require collateral from its customers.

Research and Development Costs Research and development costs are expensed as incurred.

Net Income per Share Basic net income per share is computed by dividing net income by the weighted average number of shares outstanding for the period. Diluted net income per share is calculated by dividing net income by the weighted average number of common shares outstanding and common equivalent shares from dilutive stock options and restricted stock using the treasury stock method, except when such shares are anti-dilutive. See Note 8 to the Company s Condensed Consolidated Financial Statements).

Segments The Financial Accounting Standards Board s (FASB) guidance regarding disclosure about segments in an enterprise and related information establishes standards for the reporting by public business enterprises of information about reportable segments, products and services, geographic areas, and major customers. The method for determining what information to report is based on the manner in which management organizes the reportable segments within the Company for making operational decisions and assessments of financial performance. The Company s chief operating decision-maker is considered to be the Chief Executive Officer. The Company operates in one reporting segment.

Table of Contents

Business Combinations The Company recognizes assets acquired (including goodwill and identifiable intangible assets) and liabilities assumed at fair value on the acquisition date. Subsequent changes to the fair value of such assets acquired and liabilities assumed are recognized in earnings, after the expiration of the measurement period, a period not to exceed 12 months from the acquisition date. Acquisition-related expenses and acquisition-related restructuring costs are recognized in earnings in the period in which they are incurred.

Stock-Based Compensation Expense

The Company maintains stock-based compensation plans which allow for the issuance of equity-based awards to executives, directors and certain employees. These equity-based awards include stock options, restricted stock awards (RSAs) and restricted stock units (RSUs) which can be either time-based or performance-based. The Company also maintains an employee stock purchase plan that provides for the issuance of shares to all eligible employees of the Company at a discounted price.

Stock-based compensation expense includes compensation costs related to estimated fair values of stock options and awards granted. The estimated fair value of the Company s equity-based awards, net of expected forfeitures, is amortized on a straightline basis over the awards vesting period, typically four years for stock options, three years for RSUs and one year for RSAs, and is adjusted for subsequent changes in estimated forfeitures related to all equity-based awards and performance as it relates to performance-based RSUs.

The Company applies the fair value recognition provisions based on the FASB s guidance regarding stock-based compensation. The exercise price of each stock option equals the market price of the Company s stock on the date of grant. Most options are scheduled to vest over four years and expire no later than ten years from the grant date. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model. The determination of the fair value of share-based payment awards on the date of grant using an option-pricing model is affected by the Company s stock price as well as assumptions regarding certain variables. These variables include the expected term of the awards; the Company s expected stock price volatility over the term of the awards, actual and projected employee stock option exercise behaviors, the risk-free interest rate and expected dividends. The Company estimates the expected term of share-based awards granted based on the Company s historical option term experience. The Company estimates the volatility of its common stock based upon the Company s historical stock price volatility over the length of the expected term of the options. The Company bases the risk-free interest rate that it uses in the option valuation model on U.S. Treasury zero-coupon issues with remaining maturities similar to the expected term of the options. The Company does not anticipate paying any cash dividends in the foreseeable future and therefore uses an expected dividend yield of zero in the option valuation model. The Company is required to estimate forfeitures at the time of grant and revise those estimates in subsequent periods if actual forfeitures differ from those estimates. The Company uses historical data to estimate pre-vesting option forfeitures and records share-based compensation expense only for those awards that are expected to vest. The Company also considers, each quarter, whether there have been any significant changes in facts and circumstances that would affect its estimated forfeiture rate.

Stock Options

Stock option activity for the nine months ended September 25, 2015:

	Shares	**Weighted Average Exercise Price**	**Weighted Remaining Contractual**	**Aggregate Intrinsic Value (in**

				Life (years)		thousands)
Outstanding at December 26, 2014	853,551	$	8.87	1.35	$	1,798
Granted						
Exercised	(339,303)	$	6.48			
Canceled	(197,600)	$	11.18			
Outstanding at September 25, 2015	316,648	$	10.01	2.31	$	234,133
Options exercisable at September 25, 2015	316,648	$	10.01	2.31	$	234,133

There were no options granted by the Company during either of the nine month periods ended September 25, 2015 and September 26, 2014. As of September 25, 2015, there was no stock-based compensation expense attributable to stock options as all outstanding options were fully vested.

Employee Stock Purchase Plan

The Company also maintains an employee stock purchase plan (ESPP) that provides for the issuance of shares to all eligible employees of the Company at a discounted price. Under the ESPP, substantially all employees may purchase the Company s common stock through payroll deductions at a price equal to 95 percent of the fair market value of the Company s stock at the end of each applicable purchase period.

Table of Contents

Restricted Stock Units and Restricted Stock Awards

The Company grants RSUs to employees and RSAs to non-employee directors as part of the Company s long term equity compensation plan.

Restricted Stock Units RSUs are granted to employees with a per share or unit purchase price of zero dollars and either have time based or performance based vesting. RSUs typically vest over three years, subject to the employee s continued service with the Company. For purposes of determining compensation expense related to these RSUs, the fair value is determined based on the closing market price of the Company s common stock on the date of award. The expected cost of the grant is reflected over the service period, and is reduced for estimated forfeitures.

During the quarter ended March 27, 2015, the Company granted 456,500 RSU s, with a weighted average fair value of $8.68 per share, and granted 90,500 performance stock units with a weighted average fair value of $8.35 per share. During the quarter ended June 26, 2015, the Company granted 134,000 RSU s, with a weighted average fair value of $6.53 per share. The Company granted 103,500 RSU s with a weighted average fair value of $6.71 per share during the quarter ended September 25, 2015.

During the nine months ended September 25, 2015, 39,938 vested shares were withheld to satisfy withholding tax obligations, resulting in the net issuance of 337,443 shares. As of September 25, 2015, approximately $ 6.8 million of stock-based compensation cost, net of estimated forfeitures, related to RSU s remains to be amortized over a weighted average period of 2.1 years. As of September 25, 2015, a total of 1,277,741 RSU s remain outstanding with an aggregate fair value of $6.8 million and a weighted average remaining contractual term of 1.3 years.

Restricted Stock Awards As of September 25, 2015, a total of 48,000 RSAs were outstanding. The total unamortized expense of the Company s unvested restricted stock awards as of September 25, 2015, was $ 0.2 million.

The following table summarizes the Company s RSU and RSA activity for the nine months September 25, 2015:

	Shares	**Aggregate Fair Value (in thousands)**
Unvested restricted stock units and restricted stock awards at December 26, 2014	1,078,279	$ 9,673
Granted	840,500	
Vested	(424,381)	
Forfeited	(216,657)	
Unvested restricted stock units and restricted stock awards at September 25, 2015	1,277,741	$ 6,800
Vested and expected to vest restricted stock units and restricted stock awards at September 25, 2015	1,076,186	$ 5,686

The following table shows the Company s stock-based compensation expense included in the condensed consolidated statements of operations (in thousands):

	Three months ended		Nine months ended	
	September 25, 2015	September 26, 2014	September 25, 2015	September 26, 2014
Cost of sales (1)	$ 304	$ 267	$ 908	$ 862
Research and development	658	100	1,247	245
Sales and marketing	49	119	150	334
General and administrative	103	671	302	1728
	1,114	1,157	2,607	3,169
Income tax benefit	(310)	(226)	(746)	(1,056)
Net stock-based compensation expense	$ 804	$ 931	$ 1,861	$ 2,113

(1) Stock-based compensation expenses capitalized in inventory for the three and nine month periods ended September 25, 2015 and September 26, 2014 were considered immaterial.

Recent Accounting Pronouncements

In September 2015, the Financial Accounting Standards Board (FASB) issued updated guidance on the accounting for purchase accounting adjustments determined during the measurement period (i.e. up to one year after the acquisition). The new guidance requires an acquirer to recognize such adjustments in the reporting period in which the adjustment amounts are determined. Previously, such adjustments were required to be recorded on a retrospective basis. The Company has elected to early adopt this guidance beginning in the third quarter 2015 on a prospective basis. The adoption of this guidance did not have a significant impact on the condensed consolidated financial statements.

In July 2015, the FASB issued authoritative guidance that requires inventory to be measured at the lower of cost and net realizable value instead of at lower of cost or market. This guidance does not apply to inventory that is measured using last-in, first out (LIFO) or the retail inventory method but applies to all other inventory including those measured using first-in, first-out (FIFO) or the average cost method. The authoritative guidance will be effective for the Company in the first quarter of fiscal 2018 and should be applied prospectively. Early adoption is permitted as of the beginning of an interim or annual reporting period. The Company is currently evaluating the effect of this new guidance on the Company s consolidated financial statements.

In April 2015, the FASB issued authoritative guidance that requires debt issuance costs to be presented in the balance sheet as a direct deduction from the carrying amount of the related debt liability, consistent with debt discounts. The authoritative guidance is effective for the Company in the first quarter of fiscal 2017 and should be applied retrospectively. Early adoption is permitted. The adoption of this guidance is not expected to have a significant impact on the Company s consolidated financial statements.

2. Financial Instruments

Cash Equivalents

The Company has an overnight sweep account invested in money market funds with maturities of less than 90 days from purchase and is thus classified as cash and cash equivalents on the Company s balance sheet. These money market funds had a carrying value and fair value of $0.3 million at September 25, 2015 based on Level 1 inputs.

Derivative Financial Instruments

A subsidiary of the Company, Miconex, utilizes foreign currency forward contracts with a local financial institution to reduce the risk that its cash flows and earnings will be adversely affected by foreign currency exchange rate fluctuations. The Company also uses certain interest rate derivative contracts to hedge interest rate exposures on existing floating rate debt. The Company classifies its foreign currency and interest rate derivative contracts primarily within Level 2 of the fair-value hierarchy discussed in Note 1of the Company s Condensed Consolidated Financial Statements as the valuation inputs are based on quoted prices and market observable data of similar instruments.

Cash Flow Hedges

In September 2015, the Company entered into an interest rate swap with East West and City National banks with a notional amount of $20.0 million pursuant to which the Company pays the counterparty a fixed rate of 0.99% and receives interest at a variable rate equal to the LIBOR rate the Company is required to pay under its term loan, or 0.2%, as of September 25, 2015. This interest rate swap effectively locks in a fixed interest rate of 3.49% on $20.0 million of the $37.5 million term loan balance outstanding as of September 25, 2015, with a decreasing notional amount based on prorated quarterly principal payments over the remaining period of the term loan. Gains or losses on the effective portion of a cash flow hedge are reflected as a component of AOCI and subsequently recorded to interest income (expense) when the hedged transactions are realized. If the hedged transactions become probable of not occurring, the corresponding amounts in AOCI would be immediately reclassified to interest and other income, net. As of September 25, 2015, the effective portion of the Company s cash flow hedge before tax effect was $0.1 million, of which $0.1 million is expected to be reclassified from AOCI into earnings within the next 12 months.

Non-Designated Derivatives

Miconex derivatives are not designated as hedging instruments and consist of: a) forward contracts that Miconex uses to hedge forecasted transactions that are denominated in currencies other than the local currency of Miconex, and b) an interest rate swap with a total notional amount of $0.5 million to convert the variable interest rates on Miconex debt to fixed interest rates. The Company recognizes gains and losses on these contracts, as well any related costs in interest and other income, net. The notional principal of foreign exchange contracts outstanding was $1.3 million as of September 25, 2015 and $0 as of December 26, 2014.

The Company records all derivatives in the Condensed Consolidated Balance Sheets at fair value. The Company s accounting treatment for these derivative instruments is based on its hedge designation. The following tables show the Company s derivative instruments at gross fair value (in thousands) as of September 25, 2015. There were no derivative instruments as of December 26, 2014.

Table of Contents

	Balance Sheet Location	September 25, 2015 Fair Value of Derivatives Designated as Hedge Instruments	Fair Value of Derivatives Not Designated as Hedge Instruments	Total Fair Value
Derivative liabilities				
Level 2				
Foreign exchange contracts	Deferred rent and other liabilities	$	$ 12	$ 12
Interest rate swap	Deferred rent and other liabilities	$ 91	$ 10	$ 101

The effect of derivative instruments in cash flow hedging relationships on income and other comprehensive income (OCI) is summarized below (in thousands):

	Gains (Losses) Recognized in OCI on Derivatives Before Tax Effect (Effective Portion)			
	Three Months Ended		Nine Months Ended	
	September 25, 2015	September 26, 2014	September 25, 2015	September 26, 2014
Derivatives in Cash Flow Hedging Relationship				
Interest rate swap	$ 87	$	$ 87	$

		Gains Reclassified from AOCI into Income (Effective Portion)			
		Three Months Ended		Nine Months Ended	
	Income Statement Location	September 25, 2015	September 26, 2014	September 25, 2015	September 26, 2014
Derivatives in Cash Flow Hedging Relationship					
Interest rate swap	Interest and other income (expense), net	$ 4	$	$ 4	$

There were no gains (losses) recognized in income on derivatives that are excluded from the effectiveness testing and ineffective portion of the cash flow hedge for the three and nine months ended September 25, 2015 and September 26, 2014.

The effect of derivative instruments not designated as hedging instruments on income for the three and nine months ended September 25, 2015 and September 26, 2014 is immaterial to the financial statements.

Table of Contents

3. Balance Sheet Information

Inventory consisted of the following (in thousands):

	September 25, 2015	December 26, 2014
Raw materials	$ 60,484	$ 45,294
Work in process	18,741	14,103
Finished goods	4,111	3,922
	83,336	63,319
Reserve for excess and obsolete	(7,772)	(6,469)
Total	$ 75,564	$ 56,850

Equipment and leasehold improvements, net, consisted of the following (in thousands):

	September 25, 2015	December 26, 2014
Computer equipment and software	$ 10,989	$ 9,299
Furniture and fixtures	6,076	2,582
Machinery and equipment	15,467	10,774
Leasehold improvements	12,853	12,847
	45,385	35,502
Accumulated depreciation	(28,417)	(24,661)
Total	$ 16,968	$ 10,841

4. Acquisitions

Miconex

On July 31, 2015, the Company acquired 100.0% of the shareholding interest of Miconex, a limited liability company incorporated under the laws of the Czech Republic and a provider of advanced precision fabrication of plastics, primarily for the semiconductor industry. This acquisition is expected to expand the Company s capabilities with existing customers. Pursuant to the purchase agreement, the Company paid $15.0 million in cash and issued 500,000 shares of the Company s common stock. In addition, the former owners of Miconex are entitled to up to $4.0 million of potential cash earn-out payments over a two-year period following closing, based on Miconex s achievement of specified performance targets based on EBIT (earnings before interest and taxes) pursuant to the provisions of the purchase agreement. The preliminary estimated acquisition price of Miconex for purposes of the Company s preliminary purchase price allocation was determined to be $20.1 million, which includes the cash payment of $15.0 million, the stock consideration valued at $3.8 million, and the fair value of the potential earn-out payments of approximately $1.3 million.

The fair value of the common stock issued was determined based on the average of the high and low trading prices per share of the Company s common stock on the acquisition date of approximately $7.64 per share. The fair value of the earn-out payments at the acquisition date was determined providing risk adjusted earnings projections using the Monte Carlo Simulation. These inputs are not observable in the market and thus represent a Level 3 measurement as discussed in Note 1 of the Company s Condensed Consolidated Financial Statements. As of September 25, 2015, there were no significant changes in the fair value of the earn-out.

The Company preliminarily allocated the purchase price of Miconex to the tangible and intangible assets acquired and liabilities assumed based on their estimated fair values. The excess of the purchase price over the aggregate fair value was recorded as goodwill. Goodwill associated with this acquisition is primarily attributable to future technology, market presence and knowledgeable and experienced workforce. The fair value assigned to identifiable intangible assets acquired was determined using the income approach taking into account the Company s consideration of a number of inputs, including an independent third party analysis that was based upon estimates and assumptions provided by the Company. These estimates and assumptions were determined through established and generally accepted valuation techniques.

The primary areas of the preliminary purchase price allocation yet to be finalized relate to the fair value of certain tangible assets and liabilities acquired, income and non-income based taxes and residual goodwill.

Table of Contents

During the measurement period, which can be no more than one year from the date of acquisition, we expect to continue to obtain information to assist us in determining the final fair value of the net assets acquired at the acquisition date. The preliminary purchase price for this acquisition has been allocated as follows:

Fair Market Values (in thousands)	
Cash and cash equivalents	$ 239
Accounts receivable	3,065
Inventories	6,198
Deferred tax assets	196
Prepaid expenses and other	214
Equipment and leasehold improvements	428
Goodwill	10,197
Purchased intangible assets	8,800
Total assets acquired	29,337
Bank borrowings	(3,027)
Accounts payable	(3,509)
Accrued compensation and related benefits	(432)
Other current liabilities	(576)
Deferred tax liability	(1,672)
Other liabilities	(24)
Total liabilities assumed	(9,240)
Purchase price allocated	$ 20,097

	Useful Life (In years)	**Purchased Intangible Assets (In thousands)**
Customer relationships	7.5	$ 8,800

Goodwill is not amortized but is reviewed for impairment at least annually and whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. Although goodwill is not amortized for financial accounting purposes, it is amortized in its entirety for tax purposes over fifteen years.

The results of operations for the Company for the three and nine month periods ended September 25, 2015 include two months of operating activity for Miconex. For the three and nine months ended September 25, 2015, net sales of approximately $5.2 million and operating income of approximately $0.4 million attributable to Miconex were included in the consolidated results of operations. For the three and nine months ended September 25, 2015, results of operations included charges of $0.2 million attributable to amortization of purchased intangible assets and $0.4 million of deal costs associated with the acquisition. Deal costs are included in general and administrative expenses in the Company s Condensed Consolidated Statements of Operations.

Marchi

On February 5, 2015, the Company acquired 100.0% of the shareholding interest of Marchi, a designer and manufacturer of specialty thermocouples, heaters and temperature controllers, for approximately $29.9 million in cash and 1,437,500 shares of newly issued common stock for a total purchase price of approximately $43.7 million. In addition, the Company incurred approximately $0.2 million of costs related to the acquisition. The Company completed this acquisition primarily in order to expand its capabilities with existing customers and to bring the Company closer to the customer in the design stage of new products and next generation equipment. The Company financed the cash portion of the acquisition by borrowing a total of $29.7 million under a new Credit Agreement. See further discussion of the borrowing arrangements in Note 6 to the Company s Condensed Consolidated Financial Statements.

The Company allocated the preliminary purchase price of Marchi to the tangible assets, liabilities and identifiable intangible assets acquired, based on their estimated fair values. The excess of purchase price over the aggregate fair value was recorded as goodwill. Goodwill associated with the Marchi acquisition is primarily attributable to the future technology, market presence and knowledgeable and experienced workforce. The fair value assigned to identifiable intangible assets acquired was determined using the income approach taking into account the Company s consideration of a number of inputs, including an independent third party analysis that was based upon estimates and assumptions provided by the Company. These estimates and assumptions were determined

Table of Contents

through established and generally accepted valuation techniques. The estimated fair value of the tangible and intangible assets acquired was allocated at Marchi s acquisition date. The primary areas of the preliminary purchase price allocation that are not yet finalized relate to the fair values of inventory, non-income based taxes and residual goodwill.

During the measurement period, which can be no more than one year from the date of acquisition, we expect to continue to obtain information to assist us in determining the final fair value of the net assets acquired at the acquisition. The preliminary purchase price for this acquisition has been allocated as follows:

Fair Market Values (in thousands)	
Inventories	$ 1,297
Equipment and leasehold improvements	767
Goodwill	18,380
Purchased intangible assets	23,370
Other non-current assets	26
Total assets acquired	43,840
Other liabilities	(100)
Total liabilities assumed	(100)
Purchase price allocated	$ 43,740

	Useful Life (In years)	**Purchased Intangible Assets (In thousands)**
Customer relationships	10	$ 9,900
Trade name	6	1,170
Intellectual properties/know-how	8-12	12,300
Total purchased intangible assets		$ 23,370

The results of operations for the Company for the nine month period ended September 25, 2015 include eight full months of operating activity for Marchi. For the three and nine months ended September 25, 2015, net sales of approximately $3.9 million and $10.1 million, respectively and operating income of approximately $1.7 million and $4.4 million, respectively attributable to Marchi were included in the consolidated results of operations. For the three and nine months ended September 25, 2015, results of operations included charges of $0.7 million and $1.7 million, respectively, attributable to amortization of purchased intangible assets and $0.2 million of deal costs associated with the acquisition. Deal costs are included in general and administrative expenses in the Company s consolidated results of operations. The following unaudited pro forma consolidated results of operations assume the Marchi and Miconex acquisitions were completed as of the beginning of the year of the reporting periods presented (in thousands, except per share amounts):

Table of Contents

	Three Months Ended		Nine Months Ended	
	September 25, 2015	September 26, 2014	September 25, 2015	September 26, 2014
Net sales	$ 127,348	$ 126,857	$ 386,889	$ 428,703
Net income	$ 1,560	$ (4,301)	$ 6,049	$ 11,414
Basic earnings per share	$ 0.05	$ (0.14)	$ 0.19	$ 0.37
Diluted earnings per share	$ 0.05	$ (0.14)	$ 0.19	$ 0.36

The unaudited pro forma results above include adjustments related to the purchase price allocation and financing of the Marchi and Miconex acquisitions, primarily to increase amortization for the identifiable intangible assets, to increase interest expense for the additional debt incurred to complete the acquisition of Marchi, to reflect the related income tax effect of the pro forma adjustments and to adjust weighted shares issued as part of the acquisitions. The unaudited pro forma results for the three and nine months ended September 25, 2015 include acquisitions related costs of $0.6 million which are not expected to occur in future quarters. The unaudited pro forma condensed combined financial information has been prepared by management for illustrative purposes only and are not necessarily indicative of the condensed consolidated financial position or results of income in future periods or the results that actually would have been realized had UCT, Marchi and Miconex been a combined company during the specified periods. The unaudited pro forma condensed combined financial information does not reflect any operating efficiencies and/or cost savings that we may achieve with respect to the combined companies, or any liabilities that may result from integration activities.

5. Goodwill and Purchased Intangible Assets

The Company s methodology for allocating the purchase price relating to acquisitions is determined through established and generally accepted valuation techniques. Goodwill is measured as the excess of the cost of the acquisition over the sum of the amounts assigned to tangible and identifiable intangible assets acquired less liabilities assumed. The Company assigns assets acquired (including goodwill) and liabilities assumed to one or more reporting units as of the date of acquisition. Typically, acquisitions relate to a single reporting unit and thus do not require the allocation of goodwill to multiple reporting units. If the products obtained in an acquisition are assigned to multiple reporting units, the goodwill is distributed to the respective reporting units as part of the purchase price allocation process. Goodwill and purchased intangible assets with indefinite useful lives are not amortized, but are reviewed for impairment at least annually and whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. The Company regularly monitors current business conditions and other factors including, but not limited to, adverse industry or economic trends and lower projections of profitability that may impact future operating results.

To test goodwill for impairment, the Company first performs a qualitative assessment to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying value. If it is concluded that this is the case, the Company then performs the two-step goodwill impairment test. Otherwise, the two-step goodwill impairment test is not required. Under the two-step goodwill impairment test, the Company would in the first step compare the estimated fair value of each reporting unit to its carrying value. The Company determines the fair value of each of its reporting units based on a weighting of income and market approaches. If the carrying value of a reporting unit exceeds its fair value, the Company would then perform the second step of the impairment test in order to determine the implied fair value of the reporting unit s goodwill. If the Company determines that the carrying value of a reporting unit s goodwill exceeds its implied fair value, the Company would record an impairment charge equal to the difference.

The evaluation of goodwill and intangible assets for impairment requires the exercise of significant judgment. In the event of future changes in business conditions, the Company will be required to reassess and update its forecasts and estimates used in future impairment analyses. If the results of these future analyses are lower than current estimates, a material impairment charge may result at that time.

Details of goodwill and other intangible assets were as follows (in thousands):

	September 25, 2015			December 26, 2014		
	Goodwill	Intangible Assets	Total	Goodwill	Intangible Assets	Total
Carrying amount	$ 84,495	$ 44,952	$ 129,447	$ 55,918	$ 16,824	$ 72,742

Purchased Intangible Assets

Intangible assets are generally recorded in connection with a business acquisition. The Company evaluates the useful lives of its intangible assets each reporting period to determine whether events and circumstances require revising the remaining period of amortization. In addition, the Company reviews indefinite lived intangible assets for impairment when events or changes in circumstances indicate their carrying value may not be recoverable and tests definite lives intangible assets at least annually for impairment. Management considers such indicators as significant differences in product demand from the estimates, changes in the competitive and economic environment, technological advances, and changes in cost structure.

Table of Contents

Details of purchased intangible assets were as follows (in thousands):

	As of September 25, 2015			As of December 26, 2014			
	Gross Carrying Amount	Accumulated Amortization	Carrying Value	Gross Carrying Amount	Accumulated Amortization	Carrying Value	Useful Life (in years)
AIT							
Customer relationships	$ 19,000	$ (14,726)	$ 4,274	$ 19,000	$ (13,011)	$ 5,989	7
Tradename	1,900	(1,304)	596	1,900	(1,081)	819	6
Intellectual property/know-how	1,600	(743)	857	1,600	(571)	1,029	7
Marchi							
Customer relationships	9,900	(660)	9,240				10
Tradename	1,170	(158)	1,012				6
Intellectual property/know-how	12,300	(919)	11,381				8-12
Miconex							
Customer relationships	8,800	(195)	8,605				7.5
UCT							
Tradename	8,987		8,987	8,987		8,987	*
Total	$ 63,657	$ (18,705)	$ 44,952	$ 31,487	$ (14,663)	$ 16,824	

* The Company concluded that the UCT tradename intangible asset life is indefinite and is therefore not amortized but is reviewed for impairment at least annually and whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable.

The Company amortizes its tradenames for AIT and Marchi and customer relationships intangible asset for AIT using an accelerated method over the estimated economic life of the assets, ranging from 6 to 7 years. The Company amortizes its intellectual property/know-how and customer relationships intangible assets for Marchi and Miconex on a straight-line basis with an estimated economic life of the assets ranging from 7 to 12 years. Amortization expense was approximately $1.6 million and $1.2 million for the three months ended September 25, 2015 and September 26, 2014, respectively and $4.0 million and $3.7 million for the nine months ended September 25, 2015 and September 26, 2014, respectively. Amortization expense is charged to general and administrative. As of September 25, 2015, future estimated amortization expense is expected to be as follows (in thousands):

	Amortization Expense
2015 (remaining in year)	$ 1,648
2016	6,062
2017	5,142
2018	4,582
2019	4,210
Thereafter	14,321

Total	$	35,965

6. Borrowing Arrangements

Prior to February 5, 2015, the Company had borrowing arrangements with Silicon Valley Bank under a Loan and Security Agreement (the Loan Agreement) which included a $40.0 million revolving credit facility (the Revolver), maturing on July 3, 2016, and a $40.0 million term loan (the Term Loan), maturing on July 3, 2016. The interest rate on the Revolver during the month of January 2015 was 3.75%.

On February 2, 2015, the Company entered into a new credit agreement (the Credit Agreement) by and among the Company, certain of its subsidiaries and East West Bank and City National Bank (collectively, the Lenders). The new credit agreement was amended on April 3, 2015 (as amended, the Credit Agreement) to modify certain terms of the agreement. The Credit Agreement provides for a term loan in an aggregate principal amount of $40.0 million (the New Term Loan) and a revolving credit facility in an aggregate principal amount of $40.0 million (the New Revolving Credit Facility), a letter of credit facility in the aggregate availability amount of $20.0 million (as a sublimit of such New Revolving Credit Facility) (the L/C Facility) and a swingline sub-facility in the aggregate availability amount of $5.0 million (as a sublimit of the New Revolving Credit Facility) (together with the Term Loan, the Revolving Credit Facility and the L/C Facility, the Senior Secured Credit Facility).

On February 2, 2015, the Company borrowed an aggregate of $40.0 million under the New Term Loan and approximately $6.5 million under the New Revolving Credit Facility. The borrowed funds were used to repay the outstanding balance to Silicon Valley Bank as lender under our prior Loan Agreement. The prior Loan Agreement was terminated in connection with this transaction and, as a result, the outstanding balance of the revolver of $31.3 million was classified as long-term debt as of December 26, 2014 in accordance with the terms of the new debt agreement. In addition, the Company expensed the unamortized debt issuance costs of approximately $0.7 million in the first quarter of 2015. On February 5, 2015, in order to finance the acquisition of Marchi, the Company borrowed $29.7 million under the New Revolving Credit Facility.

The New Term Loan must be repaid in consecutive quarterly installments of $1.25 million for the first four installments and $2.9 million for the remaining twelve installments, with the first payment made on March 31, 2015, and with the balance of the outstanding principal amount of the New Term Loan due at the final maturity, which is February 2, 2019. The New Revolving Credit Facility is available for the four-year period beginning on February 2, 2015. The Credit Agreement includes customary representations, warranties, covenants and events of default. The Company and certain of its subsidiaries have agreed to secure all of their obligations under the Credit Agreement by granting a first priority lien in substantially all of their respective personal property assets (subject to certain exceptions and limitations).

At the Company s option, borrowings under the New Term Loan and New Revolving Credit Facility (subject to certain limitations) bear interest at either a base rate or at the London Interbank Offered Rate (LIBOR) (with the LIBOR being adjusted for certain Eurocurrency reserve requirements, if any, as described in the Credit Agreement), plus, in each case, an applicable margin based on the Company s consolidated leverage ratio. All loans described above made on February 2, 2015 were initially base rate loans, carrying interest of 3.25%. The effective interest rate will be higher due to the incurrence of certain loan-related costs of $0.6 million that have been treated as a discount on the debt and amortized over the life of the loan.

As of September 25, 2015, the interest rates on the outstanding New Term Loan and New Revolving Credit facility were 2.70% (2.5% fixed and 0.2% variable based on LIBOR) and 3.0% fixed, respectively. In order to manage interest rate risk on the variable component of the New Term Loan the Company entered into an interest rate swap with the Lenders in September 2015 with a total notional amount of $20.0 million pursuant to which the Company pays the counterparty a fixed rate of 0.99% and receives interest at a variable rate equal to the LIBOR rate the Company is required to pay under its New Term Loan, or 0.2%, as of September 25, 2015. This interest rate swap effectively locks in a fixed interest rate of 3.49% on $20.0 million of the $37.5 million term loan balance outstanding as of September 25, 2015, with a decreasing notional amount based on prorated quarterly principal payments over the remaining period of the term loan.

The Credit Agreement requires the Company to maintain certain financial covenants including a consolidated fixed charge coverage ratio (as defined in the Credit Agreement) of at least 1.25 to 1.00 starting with the end of the first quarter of fiscal 2015 and a consolidated leverage ratio (as defined in the Credit Agreement) no greater than 3.5 to 1.00 starting with the end of the first quarter of fiscal 2015. The Credit Agreement also includes other customary affirmative and negative covenants. The Company was in compliance with all covenants for the quarter ended September 25, 2015.

The Credit Agreement also contains provisions requiring the following mandatory prepayments (subject to certain exceptions and limitations): annual prepayments in an amount equal to (a) 33% of excess cash flow (as defined in the Credit Agreement) if the aggregate outstanding principal amount of the New Term Loan equals or exceeds $20.0 million and (b) 25% of excess cash flow if the aggregate outstanding principal amount of the New Term Loan equals or exceeds $10.0 million but is less than $20.0 million. The Credit Agreement also restricts us from declaring or paying any cash dividends.

The fair value of the Company s long term debt was based on Level 2 inputs, and fair value was determined using quoted prices for similar liabilities in inactive markets. The fair value of the Company s outstanding borrowings under the Company s revolving credit facility was based on Level 2 inputs, and fair value was determined using inputs other than quoted prices that are observable, specifically, discounted cash flows of expected payments at current borrowing rates. The Company s carrying value approximates fair value for the Company s long term debt and revolving credit facility.

As of September 25, 2015, the outstanding amounts under the Company s New Term Loan and New Revolving Credit Facility were $37.5 million and $36.2 million, respectively, which are gross of unamortized debt issuance costs of $0.5 million for a total of $73.2 million. In addition to the New Term Loan and New Revolving loan, the Company has $3.7 million of bank debt from the acquired company, Miconex, with interest rates ranges from 1.3% to 10.5% and due dates from 2015 to 2020. As of September 25, 2015, our total bank debt was $76.9 million.

Table of Contents

7. Income Tax

The Company s income tax provision and effective tax rate for the three and nine month periods ended September 25, 2015 were $ 0.6 million and 27.8% and $2.0 million and 28.6%, respectively compared to $0.9 million and 19.6% and $3.9 million and 33.3%, respectively for the three and nine month periods ended September 26, 2014. The change in respective rates reflects, primarily, changes in the geographic mix of worldwide earnings and financial results, as well as the impact of losses which have a full valuation allowance for the three and nine month periods ended September 25, 2015 compared to the three and nine month periods ended September 26, 2014. Our effective tax rates were lower than the statutory rates for the first nine months of 2015 and 2014 primarily due to the geographic distribution of our world-wide earnings in foreign jurisdictions with lower tax rates or tax holidays, such as the tax holiday we are currently enjoying in Singapore.

Company management continuously evaluates the need for a valuation allowance and as of September 25, 2015, concluded that a full valuation allowance on its California, Oregon, and one of its Chinese subsidiaries was still appropriate.

The Company earns a significant amount of its operating income outside the United States, which is deemed to be indefinitely reinvested in foreign jurisdictions. As a result, most of the Company s cash and cash equivalents are held by foreign subsidiaries. The Company currently does not intend nor foresee a need to repatriate these funds to the U.S. The Company expects existing domestic cash and cash flows from operations to continue to be sufficient to fund its domestic operating activities and cash commitments for investing and financing activities, such as debt repayment and capital expenditures, for at least the next 12 months and thereafter for the foreseeable future. If the Company should require more capital in the U.S. than is generated by its domestic operations, for example to fund significant discretionary activities such as business acquisitions, the Company could elect to repatriate future earnings from foreign jurisdictions or raise capital in the United States through debt or equity issuances. These alternatives could result in higher effective tax rates, increased interest expense, or dilution of our earnings. The Company has borrowed funds domestically and continues to believe it has the ability to do so at reasonable interest rates. The Company does not provide for U.S. taxes on its undistributed earnings of foreign subsidiaries that it intends to invest indefinitely outside the U.S., unless such taxes are otherwise required under U.S. tax law. In 2014, the Company determined that a portion of the current year earnings of one of its China subsidiaries may be remitted in the future to one of its foreign subsidiaries outside of mainland China and, accordingly, the Company provided for the related withholding taxes in its consolidated financial statements. If the Company changes its intent to reinvest its undistributed foreign earnings indefinitely or if a greater amount of undistributed earnings are needed than the previous anticipated remaining unremitted foreign earnings, the Company could be required to accrue or pay U.S. taxes on some or all of these undistributed earnings. As of September 25, 2015, the Company had undistributed earnings of foreign subsidiaries that are indefinitely invested outside of the U.S. of approximately $64.5 million. It is not practicable to determine the income tax liability that might be incurred if these earnings were to be distributed.

The following table summarizes the activity related to the Company s unrecognized tax benefits (in thousands):

	Nine months ended	
	September 25, 2015	**September 26, 2014**
Balance as of the beginning of period	$ 356	$ 165
Increase (decrease) related to current year tax positions	(26)	180

Balance as of the end of period	$ 330	$ 345

The Company s gross liability for unrecognized tax benefits as of September 25, 2015 and December 26, 2014 was $0.3 million and $0.3 million, respectively. Increases or decreases to interest and penalties on uncertain tax positions are included in the income tax provision in the condensed consolidated statements of operations. Interest related to uncertain tax positions was immaterial for each of the three and six month periods ended September 25, 2015 and September 26, 2014. Although it is possible some of the unrecognized tax benefits could be settled within the next twelve months, the Company cannot reasonably estimate the outcome at this time.

The determination of the Company s tax provision is subject to judgments and estimates. The carrying value of the Company s net deferred tax assets, which is made up primarily of tax deductions and net operating loss carryforwards, assumes the Company will be able to generate sufficient future income to fully realize the income tax benefit. In determining whether the realization of these deferred tax assets may be impaired, the Company makes judgments with respect to whether the Company is likely to generate sufficient future taxable income to realize these assets. In addition, the calculation of tax liabilities involves significant judgment in estimating the impact of uncertainties in the application of complex tax laws. Resolution of these uncertainties in a manner inconsistent with the Company s expectations could have a material impact on the Company s results of operations and financial position.

Table of Contents

The Company files income tax returns in the U.S. federal jurisdiction, various states and foreign jurisdictions. The Company s 2012 through 2014 federal income tax returns are open to audit through the statute of limitations by the Internal Revenue Service. The Company s 2010 through 2014 state income tax returns are open to audit by the California Franchise Tax Board. The Company is also subject to examination in various other jurisdictions for various periods.

The Company is currently enjoying a zero rate tax holiday related to its Singapore subsidiary that will expire for tax years beginning January 2016. This tax rate is subject to achieving certain commitments agreed to with the Economic Development Board of Singapore including investment and employment thresholds. The Company s Singapore subsidiary recorded a net profit of $1.7 million and $6.2 million for the three and nine month periods ended September 25, 2015, respectively.

8. Net Income Per Share

Basic net income per share excludes dilution and is computed by dividing net income by the weighted average number of common shares outstanding for the period. Diluted net income per share reflects the potential dilution that would occur if outstanding securities or other contracts to issue common stock were exercised or converted into common stock.

The following is a reconciliation of the numerators and denominators used in computing basic and diluted net income per share (in thousands, except per share data):

	Three months ended		Nine months ended	
	September 25, 2015	September 26, 2014	September 25, 2015	September 26, 2014
Numerator:				
Net income (loss)	$ 1,676	$ (5,262)	$ 5,056	$ 7,825
Denominator:				
Shares used in computation basic:				
Weighted average common shares outstanding	31,993	29,477	31,359	29,242
Shares used in computation diluted:				
Shares used in computing basic net income per share	31,993	29,477	31,359	29,242
Dilutive effect of common shares outstanding subject to repurchase	110		222	261
Dilutive effect of options outstanding	52		72	409
Weighted average shares used in computing diluted net income per share	32,155	29,477	31,653	29,912
Net income (loss) per share basic	$ 0.05	$ (0.18)	$ 0.16	$ 0.27
Net income (loss) per share diluted	$ 0.05	$ (0.18)	$ 0.16	$ 0.26

The Company had securities outstanding which could potentially dilute basic net income per share in the future, but the incremental shares from the assumed exercise of these securities were excluded in the computation of diluted net income per share, as their effect would have been anti-dilutive. Such outstanding securities consisted of 204,154 and

281,507 stock options for the three and nine month periods ended September 25, 2015, respectively. For the three months period ended September 26, 2014, all potentially dilutive securities outstanding were considered anti-dilutive, and therefore the calculation of basic and diluted net loss per share was the same and 268,706 stock options for the nine months period ended September 26, 2014 was excluded as their effect would have been anti-dilutive.

9. Commitments and Contingencies

The Company had commitments to purchase inventory totaling approximately $36.5 million at September 25, 2015.

The Company leases properties domestically in Hayward, California; Austin, Texas, Pflugerville, Texas; Chandler, Arizona; and South San Francisco, California and internationally in China, Singapore, Philippines and Czech Republic. The Company leases certain of its facilities under non-cancelable leases, which expire on various dates through 2022.

Table of Contents

As of September 25, 2015, future minimum payments under these operating leases were as follows (in thousands):

Fiscal Year	
2015 (remaining in year)	$ 1,687
2016	6,136
2017	5,662
2018	4,479
2019	3,276
Thereafter	8,715
Total minimum lease payments	$ 29,955

From time to time, the Company is subject to various legal proceedings and claims, either asserted or unasserted, that arise in the ordinary course of business. Although the outcome of the various legal proceedings and claims cannot be predicted with certainty, the Company has not had a history of outcomes to date that have been material to the statement of operations and does not believe that any of these proceedings or other claims will have a material adverse effect on its consolidated financial condition or results of operations.

10. Segment and Geographic Information

The Company operates in one operating and reportable segment as the nature of the Company s products and production processes, as well as type of customers and distribution methods, is consistent among all of the Company s products and is engaged in the development, manufacture and supply of critical subsystems for the semiconductor capital equipment, consumer, medical, energy, industrial, flat panel and research industries. The Company s foreign operations are conducted primarily through its wholly-owned subsidiaries in China, Singapore and Czech Republic. The Company s principal markets include North America, Asia and Europe. Sales by geographic area represent sales to unaffiliated customers and are based upon the location to which the products were shipped. The following table sets forth revenue by geographic area (in thousands):

	Three months ended		Nine months ended	
	September 25, 2015	September 26, 2014	September 25, 2015	September 26, 2014
United States	$ 82,708	$ 82,310	$ 252,138	$ 282,336
China	1,017	16,035	18,267	52,461
Singapore	29,952	13,277	77,354	43,942
Austria	5,059		5,059	
Other	4,080	5,419	12,865	15,203
	$ 122,816	$ 117,041	$ 365,683	$ 393,942

At September 25, 2015, approximately $9.8 million and $0.5 million of the Company s net long-lived assets were located in Asia and Czech Republic, respectively, and the remaining balances were located in the United States. At September 26, 2014, approximately $3.9 million of the Company s net long-lived assets were located in Asia, and the remaining balances were located in the United States.

Table of Contents

ITEM 2. Management s Discussion And Analysis of Financial Condition And Results Of Operations

You should read the following discussion of our financial condition and results of operations in conjunction with the condensed consolidated financial statements and the notes thereto included elsewhere in this Quarterly Report on Form 10-Q and in our Annual Report on Form 10-K filed with the SEC on March 11, 2015. This Quarterly Report on Form 10-Q contains forward-looking statements that involve substantial risks and uncertainties. The statements contained in this Quarterly Report on Form 10-Q that are not purely historical are forward-looking statements within the meaning of Section 27A of the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, including, but not limited to, statements regarding our expectations, beliefs, intentions, strategies, future operations, future financial position, future revenue, projected expenses, gross margins and plans and objectives of management. In some cases, you can identify forward-looking statements by terms such as anticipate, believe, estimate, expect, intend, may, might, plan, project, will, would, should, could, can, predict, potential, continue, objective, or the negative of these terms, and similar expressions intended to identify forward-looking statements. However, not all forward-looking statements contain these identifying words. These forward-looking statements reflect our current views about future events and involve known risks, uncertainties and other factors that may cause our actual results, performance or achievement to be materially different from those expressed or implied by the forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those identified below, and those discussed in the section titled Risk Factors included in this Quarterly Report on Form 10-Q and in our Annual Report on Form 10-K filed with the SEC on March 11, 2015. Furthermore, such forward-looking statements speak only as of the date of this report. Except as required by law, we undertake no obligation to update any forward-looking statements to reflect events or circumstances after the date of such statements.

Overview

We are a global leader in the design, engineering, and manufacture of production tools, modules and subsystems for the semiconductor capital equipment industry and industry segments with similar requirements including consumer, medical and flat panel display. We focus on providing specialized engineering and manufacturing solutions for these applications. We enable our customers to realize lower manufacturing costs and reduced design-to-delivery cycle times while maintaining high quality standards.

With our acquisition of Marchi Thermal Systems, Inc. (Marchi) on February 5, 2015, we expanded our capabilities to include the design and manufacture of application-specific thermal solutions to solve semiconductor equipment customers temperature management challenges. The acquisition of Marchi further expanded our footprint with our pre-existing customers and brings us closer to the customer in the design stage of new products and next generation equipment. Further, with our acquisition of MICONEX s.r.o. (Miconex) on July 31, 2015, we further expanded our capabilities to include manufacturing services in advanced precision milling and welding of plastics for the semiconductor industry.

We provide our customers with complete solutions that utilize our expertise in design, scan, assembly, test and component characterization. Our customers value our highly flexible global manufacturing operations, our excellence in quality control and our scale and financial stability. Our global footprint helps us to drive down total manufacturing costs, reduce design-to-delivery cycle times and maintain high quality standards for our customers. We believe that these characteristics provide global solutions for our customers growing product demands.

We ship the majority of our products to U.S. registered customers with locations both in and outside the U.S. In addition to U.S. manufacturing, we manufacture products in our Asian and Czech Republic facilities to support local and U.S. based customers. We conduct our operating activities primarily through our wholly owned subsidiaries, Ultra Clean Technology Systems and Service, Inc., AIT LLC, Ultra Clean Technology (Shanghai) Co., Ltd., Ultra Clean

Micro-Electronics Equipment (Shanghai) Co., Ltd., Ultra Clean Asia Pacific, Pte Ltd. (Singapore), Marchi and Miconex.

In February 2015, we reached an agreement with Intuitive Surgical (ISI) on the insourcing of manufacturing for their next generation robot, the da Vinci® Xi Patient Side Cart. We will continue to manufacture previous generation robots and also assist with machined components and spare parts for current and future ISI production. This was a mutual decision driven by ISI s manufacturing needs at the time and our desire to adhere to our targeted gross margin profile. This change resulted in a decrease in sales of approximately $7.7 million and $18.7 million for the three and nine months ended September 25, 2015, respectively, when compared to the same periods of the previous year. Included in our sales for the first nine months of fiscal 2015 is a payment of $1.0 million we received from ISI as compensation for this arrangement.

Financial Highlights

Sales for the three months ended September 25, 2015, were $122.8 million, an increase of $5.8 million, or 4.9%, from the comparable quarter of 2014. Gross profit for the three months ended September 25, 2015 increased $8.6 million to $18.9 million, or 15.4% of sales, from $10.3 million, or 8.8% of sales, for the three months ended September 26, 2014. Total operating expenses for the three months ended September 25, 2015, were $15.9 million, or 12.9% of sales, compared to $14.3 million, or 12.2% of sales, for the three months ended September 26, 2014. We had net income of $1.7 million for the three months ended September 25, 2015, compared to net loss of $5.3 million for the three months ended September 25, 2014.

Sales for the nine months ended September 25, 2015, were $365.7 million, a decrease of $28.3 million, or 7.2%, from the comparable period of 2014. Gross profit for the nine months ended September 25, 2015 increased $2.9 million to $57.7 million, or 15.8 % of sales, from $54.8 million, or 13.9 % of sales, during the comparable period of 2014. Total operating expenses for the nine months ended September 25, 2015, were $48.5 million, or 13.2% of sales, compared to $41.5 million, or 10.5% of sales, for the nine months ended September 26, 2014. We earned net income of $5.1 million for the nine months ended September 25, 2015 as compared to $7.8 million for the nine months ended September 26, 2014.

We had significant sales to two customers for the three and nine months ended September 25, 2015, for which each customer accounted for 10% or more of total sales. For further discussion, see Note 1. Organization and Significant Accounting Policies *Significant Sales to Customers* in Notes to Condensed Consolidated Financial Statements above.

Results of Operations

For the periods indicated, the following table sets forth certain costs and expenses and other income items as a percentage of sales. The table and subsequent discussion should be read in conjunction with our condensed consolidated financial statements and notes thereto included elsewhere in our quarterly report.

	Three months ended		**Nine months ended**	
	September 25, 2015	**September 26, 2014**	**September 25, 2015**	**September 26, 2014**
Sales	100.0%	100.0%	100.0%	100.0%
Cost of goods sold	84.6%	91.2%	84.2%	86.1%
Gross profit	15.4%	8.8%	15.8%	13.9%
Operating expenses:				
Research and development	1.9%	1.6%	2.0%	1.4%
Sales and marketing	2.3%	2.1%	2.3%	1.9%
General and administrative	8.7%	8.5%	8.9%	7.2%
Total operating expenses	12.9%	12.2%	13.2%	10.5%
Income from operations	2.5%	(3.4)%	2.6%	3.4%
Interest and other income (expense), net	(0.6)%	(0.4)%	(0.6)%	(0.4)%
Income before provision for income taxes	1.9%	(3.8)%	2.0%	3.0%
Income tax provision	0.5%	0.7%	0.6%	1.0%
Net income	1.4%	(4.5)%	1.4%	2.0%

Sales

Sales for the three months ended September 25, 2015, were $122.8 million, an increase of $5.8 million, or 4.9%, from $117.0 million in the comparable quarter of 2014. The increase in overall sales in the third quarter of 2015 compared to the third quarter of 2014 is primarily due to an increase in demand from semiconductor customers where sales increased $16.3 million (which includes sales generated from Marchi and Miconex, which we acquired in 2015). The increase in semiconductor sales were offset by a decrease in non-semiconductor sales of $10.5 million, primarily due to the bankruptcy of GTAT in October of 2014 and to a decrease in the volume of products shipped to ISI in the third quarter of 2015 when compared to the same quarter in 2014.

On a geographic basis, sales in the U.S. decreased by $2.0 million to $79.1 million, or 64.4% of sales, for the three months ended September 25, 2015 as compared to $81.1 million, or 69.3% of sales for the same period of 2014. Foreign sales increased by $7.7 million to $43.7 million, or 35.6% of sales, for the three months ended September 25, 2015 as compared to $36.0 million, or 30.7% of sales, for the same period of 2014.

We expect sales to be lower in the fourth quarter of fiscal 2015 as compared to the third quarter of fiscal 2015 due to decreasing overall semiconductor customer demand.

Sales for the nine months ended September 25, 2015, were $365.7 million, a decrease of $28.2 million, or 7.2%, from $393.9 million in the comparable period of 2014. The decrease in sales for the nine months ended September 25, 2015, includes a decrease of $43.3 million in non-semiconductor sales attributable in part to the GTAT bankruptcy and in part to ISI s insourcing the manufacturing of its products in the first quarter of 2015. The decrease in non-semiconductor sales was offset by an increase in semiconductor sales of $15.0 due primarily to the acquisitions of Marchi and Miconex.

On a geographic basis, sales in the U.S. decreased $33.7 million to $243.8 million, or 66.7% of sales, for the nine months ended September 25, 2015 as compared to $277.5 million, or 70.5% of sales for the same period of 2014. Foreign sales increased by $5.5 million to $121.9 million, or 33.3% of sales, for the nine months ended September 25, 2015 as compared to $116.4 million, or 29.5% of sales, for the same period of 2014.

Table of Contents

Gross Profit

Cost of goods sold consists primarily of purchased materials, labor and overhead, including depreciation related to certain capital assets associated with the design and manufacture of products sold.

Gross profit for the three months ended September 25, 2015 increased $8.6 million to $18.9 million, or 15.4% of sales, from $10.3 million, or 8.8% of sales, for the three months ended September 26, 2014. The increase in gross profit and gross margin in the third quarter of 2015 is due in part to the bankruptcy of GTAT, which resulted in a charge to cost of goods sold of $4.6 million, reducing gross profit in the third quarter of 2014, and to the acquisitions of Marchi and Miconex in 2015.

Gross profit for the nine months ended September 25, 2015, increased $2.9 million to $57.7 million, or 15.8% of sales, from $54.8 million, or 13.9% of sales, for the nine months ended September 26, 2014. The increase in gross profit and gross margin when comparing the nine month period ended September 25, 2015 with the same period in 2014 is primarily due to the acquisitions of Marchi and Miconex and to the bankruptcy of GTAT in the third quarter of fiscal 2014.

We expect gross profit to be lower in the fourth quarter of 2015 compared to the third quarter of 2015 due to lower expected sales.

Research and Development Expense

Research and development expense consists primarily of activities related to new component testing and evaluation, test equipment and fixture development, product design, and other product development activities. Research and development expense for the three months ended September 25, 2015 increased $0.5 million, or 30.2%, to $2.3 million, or 1.9% of sales, compared to $1.8 million, or 1.6% of sales in the comparable period in 2014. Research and development expense for the nine months ended September 25, 2015 increased $1.9 million, or 36.3%, to $7.3 million, or 2.0% of sales, compared to $5.4 million, or 1.4% of sales in the comparable period in 2014. The increases in absolute dollars for research and development expenses when comparing the three and nine month period ended September 25, 2015 with the comparable periods in 2014 was due primarily to the inclusion of Miconex and Marchi s research and development activities in 2015.

Sales and Marketing Expense

Sales and marketing expense consists primarily of salaries and commissions paid to our sales and service employees, salaries paid to our engineers who work with the sales and service employees to help determine the components and configuration requirements for new products and other costs related to the sales of our products. Sales and marketing expense for the three months ended September 25, 2015 increased $0.3 million, or 14.1%, to $2.8 million, or 2.3% of sales, compared to $2.5 million, or 2.1% of sales, in the comparable period of 2014. Sales and marketing expenses for the nine months ended September 25, 2015, increased $0.7 million to $8.4 million, or 2.3% of sales, compared to $7.7 million, or 1.9% of sales in the comparable period of 2014. The increase in sales and marketing expense for the three and nine month periods ended September 25, 2015 compared to the same periods in the prior year is primarily due to an increase in headcount and related payroll expense with some of this increase due to the inclusion of Marchi sales and marketing activities in 2015.

General and Administrative Expense

Our general and administrative expense has historically consisted primarily of salaries and overhead associated with our administrative staff, professional fees and amortization of our intangible assets. General and administrative expense increased approximately $0.7 million, or 7.0%, for the three months ended September 25, 2015, to $10.7 million, or 8.7% of sales, compared with $10.0 million, or 8.5% of sales, in the comparable period of 2014. General and administrative expense increased approximately $4.3 million, or 15.2%, for the nine months ended September 25, 2015, to $32.7 million, or 8.9% of sales, compared with $28.4 million, or 7.2% of sales, in the comparable period of 2014. The increase in absolute dollars when comparing the three months ended September 25, 2015 with the comparable period in 2014 is primarily due to higher headcount and related compensation expense of $0.3 million due to the acquisitions of Miconex and Marchi and higher amortization of finite-lived intangibles obtained in conjunction with the acquisitions of Miconex and Marchi of $0.8 million, offset by a decrease in the accelerated-based amortization of finite-lived intangibles of $0.5 million obtained in conjunction with the acquisition of AIT. The increase in absolute dollars when comparing the nine months ended September 25, 2015 with the comparable period in 2014 is primarily due to a $2.4 million payment to our former CEO in the first quarter of 2015 upon his retirement, $0.7 million of one-time costs related to the acquisitions of Marchi and Miconex, $1.9 million amortization of finite-lived intangibles acquired in 2015, offset by a decrease of $0.9 million in share-based compensation expense due to the cancellation of the unvested restricted stock units of our former CEO upon his retirement on January 19, 2015.

Table of Contents

Interest and Other Income (Expense), net

Interest and other income (expense), net, for the three and nine months ended September 25, 2015, was $(0.8) million and $(2.1) million compared to $(0.4) million and $(1.5) million in the comparable period of 2014. The increase in net expense for the three and nine months period ended September 25, 2015 compared to the same period in the prior year is primarily due to the increase in interest expense resulting from a higher average debt balance during the period.

Income Tax Provision

Our tax expense and effective tax rate for the three months ended September 25, 2015 and September 26, 2014 were $0.6 million and 27.84%, and $0.9 million and 19.6%, respectively. Our tax expense and effective tax rate for the nine months ended September 25, 2015 and September 26, 2014 were $2.0 million and 28.6%, and $3.9 million and 33.3%, respectively. The change in respective rates reflects for the three and nine month periods ended September 25, 2015 compared to the three and nine month periods ended September 26, 2014, primarily, changes in the geographic mix of worldwide earnings and financial results, as well as the impact of losses in one of our China subsidiaries for which we maintain a full valuation allowance.

Company management continuously evaluates the need for a valuation allowance on its deferred tax assets and, as of September 25, 2015, concluded that a full valuation allowance on its California, Oregon, and one of its Chinese subsidiaries was still appropriate.

For the three and nine months ended September 25, 2015, we determined that a portion of the current year earnings of one of our China subsidiaries will be remitted in the future to one of our foreign subsidiaries outside of mainland China and, accordingly, we provided for the related foreign withholding taxes in our condensed consolidated financial statements. No provision for U.S. taxes has been provided with respect to these unremitted earnings. If we change our intent to reinvest our undistributed foreign earnings indefinitely or if a greater amount of undistributed earnings are needed than the previously anticipated remaining unremitted foreign earnings, we could be required to accrue or pay U.S. taxes on some or all of these undistributed earnings.

Liquidity and Capital Resources

We have required capital principally to fund our acquisitions and working capital needs, satisfy our debt obligations, maintain our equipment and purchase new capital equipment. As of September 25, 2015, we had cash of $59.8 million compared to $79.0 million as of December 26, 2014. Our cash and cash equivalents, cash generated from operations and amounts available under our revolving line of credit described below were our principal source of liquidity as of September 25, 2015.

For the nine months ended September 25, 2015, we generated cash from operating activities of $4.4 million compared to cash provided from operating activities of $24.2 million for the comparable period of 2014. Operating cash flows in the nine months ended September 25, 2015, included $11.7 million of non-cash activity comprised of depreciation, amortization of intangibles, stock compensation expense and amortization of debt issuance costs. Cash generated from operating activities included a decrease in accounts receivable of $7.4 million and increases in accrued compensation and related benefits and other liabilities of $0.1 million and $1.7 million, respectively, offset by increases in inventory, prepaids and other current assets and deferred income tax assets of $11.1 million, $1.3 million, and $0.2 million, respectively and decreases in accounts payable and income taxes payable of $8.2 million and $0.8 million, respectively. The increase in inventory includes $7.5 million related to the acquisitions of Miconex and Marchi. Our cash flows from operations in any given period are largely driven by the timing of sales, the collection of accounts receivable and the payment of accounts payable.

Net cash used in investing activities for the nine months ended September 25, 2015 was approximately $49.7 million and consisted of cash paid in connection with the acquisition of Marchi and Miconex of $29.7 million and $15.0 million, respectively, and capital expenditures of $5.2 million primarily attributable to the expansion of our Singapore facility, offset by Miconex cash acquired of $0.2 million.

Net cash provided from financing activities for the nine months ended September 25, 2015 was $26.0 million compared to net cash used of $7.5 million for the comparable period of 2014. For the nine months ended September 25, 2015, our net cash provided from financing activities was due primarily to the cash proceeds from bank borrowings of $77.0 million and the net proceeds from the issuance of common stock related to our employee stock plans of $1.2 million. These increases were offset primarily by the principal payments on borrowings of $51.5 million and payment of $0.6 million of debt issuance costs related to the credit facility described below.

We anticipate that our existing cash balance and operating cash flow will be sufficient to service our indebtedness and meet our working capital requirements and technology development projects for at least the next twelve months. The adequacy of these resources to meet our liquidity needs beyond that period will depend on our growth, the state of the global economy, our ability to meet our financial covenants under our credit facility, the cyclical expansion or contraction of the semiconductor capital equipment industry and the other industries we serve. As of September 25, 2015, approximately $47.4 million of non-U.S. cash and cash equivalents held by foreign subsidiaries may be subject to U.S. taxes if repatriated for U.S. operations. Of this amount, we intend to permanently reinvest all of these funds outside of the U.S. and we do not plan to repatriate these funds. The Company used its Asia cash and cash equivalents to finance the cash portion of the acquisition of Miconex on July 31, 2015.

In order to expand our business or acquire additional complementary businesses or technologies, we may need to raise additional funds through equity or debt financings. If required, additional financing may not be available on terms that are favorable to us, if at all. If we raise additional funds through the issuance of equity or convertible debt securities, our stockholders equity interest will be diluted and these securities might have rights, preferences and privileges senior to those of our current stockholders. We may also require the consent of our senior lenders to raise additional funds through equity or debt financings. No assurance can be given that additional financing will be available or that, if available, such financing can be obtained on terms favorable to our stockholders and us.

Borrowing Arrangements

On February 2, 2015, we entered into a new credit agreement (the Credit Agreement) by and among us, certain of our subsidiaries, East West Bank and Citi National Bank (collectively, the Lenders). The Credit Agreement provides for a term loan in an aggregate principal amount of $40.0 million (the New Term Loan) and a revolving credit facility in an aggregate principal amount of $40.0 million (the New Revolving Credit Facility), a letter of credit facility in the aggregate availability amount of $20.0 million (as a sublimit of such New Revolving Credit Facility) (the L/C Facility) and a swingline sub-facility in the aggregate availability amount of $5.0 million (as a sublimit of the New Revolving Credit Facility) (together with the Term Loan, the Revolving Credit Facility and the L/C Facility, the Senior Secured Credit Facility).

On February 2, 2015, we borrowed an aggregate of $40.0 million under the New Term Loan and approximately $6.5 million under the New Revolving Credit Facility. The borrowed funds were used to repay the outstanding balance to Silicon Valley Bank as lender under our prior Loan Agreement. The prior Loan Agreement was terminated in connection with this transaction and, as a result, the outstanding balance of the revolver of $31.3 million was classified as long-term debt as of December 26, 2014 in accordance with the terms of the new debt agreement. In addition, we expensed the unamortized debt issuance costs of approximately $0.7 million in the first quarter of 2015. On February 5, 2015, in order to finance the cash portion of the acquisition of Marchi, we borrowed an additional $29.7 million under the New Revolving Credit Facility.

The New Term Loan must be repaid in consecutive quarterly installments of $1.25 million for the first four installments and $2.9 million for the remaining twelve installments, with the first payment made on March 31, 2015, and with the balance of the outstanding principal amount of the New Term Loan due at the final maturity, which is February 2, 2019. The New Revolving Credit Facility is available for the four-year period beginning on February 2015. The Credit Agreement includes customary representations, warranties, covenants and events of default. We have agreed to secure all of their obligations under the Credit Agreement by granting a first priority lien in substantially all of their respective personal property assets (subject to certain exceptions and limitations).

At our option, borrowings under the New Term Loan and New Revolving Credit Facility (subject to certain limitations) bear interest at either a base rate or at the London Interbank Offered Rate (LIBOR) (with the LIBOR being adjusted for certain Eurocurrency reserve requirements, if any, as described in the Credit Agreement), plus, in each case, an applicable margin based on our consolidated leverage ratio. All loans described above made on February 2, 2015 were initially base rate loans, carrying interest of 3.25%. The effective interest rate will be higher due to the incurrence of certain loan-related costs of $0.6 million that have been treated as a discount on the debt and amortized over the life of the loan.

As of September 25, 2015, the interest rates on the outstanding new Term Loan and new Revolving Credit facility were 2.70% (2.5% fixed and 0.2% variable based on LIBOR) and 3.0% fixed, respectively. In order to manage interest rate risk on the variable component of the New Term Loan we entered into an interest rate swap with the Lenders in September 2015 with a total notional amount of $20.0 million pursuant to which we pay the counterparty a fixed rate of 0.99% and receive interest at a variable rate equal to the LIBOR rate we are required to pay under our New Term Loan, or 0.2%, as of September 25, 2015. This interest rate swap effectively locks in a fixed interest rate of 3.49% on $20.0 million of the $37.5 million term loan balance outstanding as of September 25, 2015, with a decreasing notional amount based on prorated quarterly principal payments over the remaining period of the term loan.

The Credit Agreement requires us to maintain certain financial covenants including a consolidated fixed charge coverage ratio (as defined in the Credit Agreement) of at least 1.25 to 1.00 starting with the end of the first quarter of fiscal 2015 and a consolidated leverage ratio (as defined in the Credit Agreement) no greater than 3.5 to 1.00 starting with the end of the first quarter of fiscal 2015. The Credit Agreement also includes other customary affirmative and negative covenants. We are in compliance with all covenants for the quarter ended September 25, 2015.

The Credit Agreement also contains provisions requiring the following mandatory prepayments (subject to certain exceptions and limitations): annual prepayments in an amount equal to (a) 33% of excess cash flow (as defined in the Credit Agreement) if the aggregate outstanding principal amount of the New Term Loan equals or exceeds $20.0 million and (b) 25% of excess cash flow if the aggregate outstanding principal amount of the New Term Loan equals or exceeds $10.0 million but is less than $20.0 million. The Credit Agreement also restricts us from declaring or paying any cash dividends.

As of September 25, 2015, we have outstanding amounts under the New Term Loan and New Revolving Credit Facility of $37.5 million and $36.2 million, respectively, which are gross of unamortized debt issuance costs of $0.5 million, for a total of $73.2 million. In addition to the New Term Loan and New Revolving loan, we have $3.7 million of bank debt from the acquired company, Miconex, with interest rates ranges from 1.3% to 10.5% and due dates from 2015 to 2020. As of September 25, 2015, our total outstanding debt was $76.9 million.

Capital Expenditures

Capital expenditures were $8.4 million in the nine months ended September 25, 2015. The Company s anticipated capital expenditures for the remainder of 2015 are expected to be financed through cash from operations.

Off-Balance Sheet Arrangements

During the periods presented, we did not have any relations with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes.

Contractual Obligations

Other than operating leases for certain equipment and real estate and purchase order commitments primarily for inventory, we have no off-balance sheet transactions, unconditional purchase obligations or similar instruments and, other than the arrangements described under Borrowing Arrangements above, are not a guarantor of any other entities debt or other financial obligations. The following table summarizes our future minimum lease payments, principal payments under debt obligations and our purchase obligations for the purchase of inventory as of September 25, 2015 (in thousands):

	Remainder of 2015	2016	2017	2018	2019	2020 and Thereafter	Total
Operating leases (1)	$ 1,687	$ 6,136	$ 5,662	$ 4,479	$ 3,276	$ 8,715	$ 29,955
Borrowing arrangements (2)	5,572	11,843	11,820	11,820	36,342	35	77,432
PO commitments	36,491						36,491
Total	$ 43,750	$ 17,979	$ 17,482	$ 16,299	$ 39,618	$ 8,750	$ 143,878

(1) Operating lease obligations reflects (a) the lease for our headquarters facility in Hayward, California that expires in 2022; (b) the leases for manufacturing facilities in South San Francisco that expire in 2018; (c) the leases for

manufacturing facilities in China, Singapore and the Philippines that expire in 2015 thru 2016; (d) the lease for a manufacturing facility in Singapore that expires in 2017; (e) the leases for manufacturing facilities in Austin, Texas that expire in 2016; (f) the leases for manufacturing facilities in Chandler, Arizona that expire in 2017; (g) the leases for manufacturing facilities in Pflugerville, Texas that expire in 2018; and (h) the leases for our manufacturing facilities in the Czech Republic that expires in 2018. We have options to renew certain of the leases in South San Francisco, Hayward, Austin, Singapore and the in Czech Republic which we expect to exercise.

(2) Amounts reflect obligations under our New Revolving Credit Facility gross of $0.5 million of unamortized debt issuance costs, under which $38.7 million is outstanding under the New Term Loan and approximately $36.2 million under the New Revolving Credit Facility as of September 25, 2015 and of our bank debt of $3.7 million held by our newly acquired company, Miconex.

Critical Accounting Policies, Significant Judgments and Estimates

Our condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States, which require us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenue and expenses and related disclosure at the date of our consolidated financial statements. On an on-going basis, we evaluate our estimates and judgments, including those related to sales, inventories, goodwill and intangible assets, stock compensation and income taxes. We base our estimates and judgments on historical experience and on various other factors that we believe to be reasonable under the circumstances, the results of which form the basis of our judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. We consider certain accounting policies related to revenue recognition, inventory valuation, accounting for income taxes, business combinations, valuation of intangible assets and goodwill, and equity incentives to employees to be critical policies due to the estimates and judgments involved in each.

ITEM 3. Quantitative and Qualitative Disclosures About Market Risk

We are exposed to financial market risks, including changes in currency exchange rates and interest rates.

Foreign Exchange Rates

Currently, a significant majority of our sales and arrangements with third-party suppliers provide for pricing and payment in US dollars, which are not subject to material exchange rate fluctuations. Increases in the value of the U.S. dollar relative to other currencies would make our products more expensive relative to competing products priced in such other currencies, which could negatively impact our ability to compete. Conversely, decreases in the value of the U.S. dollar relative to other currencies could result in our foreign suppliers raising their prices in order to continue doing business with us. However, we do not expect foreign currency exchange rate fluctuations to have a material effect on our results of operations.

Chinese authorities recently relaxed controls of China s currency, the Renminbi, and allowed the currency to strengthen against other world currencies, including the U.S. dollar. We continue to monitor any potential impact of the depreciation or appreciation of the Renminbi on our operations in China as well as globally. Changes in the value of the Renminbi did not have a material impact on our results of operations for any period presented in this Form 10-Q.

Miconex uses derivative instruments, such as foreign currency exchange contracts, to hedge certain exposures to fluctuations in foreign currency exchange rates. These contracts reduce, but do not entirely eliminate the impact of currency exchange rates movement on Miconex s assets and liabilities.

Interest Rates

Our interest rate risk relates primarily to outstanding amounts under our New Term Loan and New Revolving Credit Facility which totaled $73.2 million (net of debt issuance costs) as of September 15, 2015, and carries interest rates pegged to either the prime rate or LIBOR. To reduce our exposure to potentially rising interest rates, on September 17, 2015, we entered into an interest rate swap with the Lenders, encompassing $20.0 million of the $37.5 million principal balance of the New Term Loan. The interest rate swap exchanges the variable interest rate component where LIBOR was at 0.20% as of September 25, 2015, with a fixed interest rate of 0.99% over the remaining term of the New Term Loan. This interest rate swap is designated as a cash flow hedge of the interest rate risk attributable to forecasted variable interest payments.

An immediate increase in interest rates of 100 basis points would increase our interest expense by approximately $0.2 million per quarter. This would be partially offset by increased interest income on our invested cash. Conversely, an immediate decline of 100 basis points in interest rates would decrease our interest expense by approximately $0.2 million per quarter. This would be partially offset by decreased interest income on our invested cash.

ITEM 4. Controls and Procedures

As required by Rule 13a-15(b) under the Securities Exchange Act of 1934 (the Exchange Act), management, including our Chief Executive Officer and Chief Financial Officer, conducted an evaluation as of the end of the period covered by this report, of the effectiveness of our disclosure controls and procedures as defined in Exchange Act Rule 13a-15(e). Based upon our evaluation, we concluded that our disclosure controls and procedures were effective as of September 25, 2015.

As required by Rule 13a-15(d), management, including our Chief Executive Officer and Chief Financial Officer, also conducted an evaluation of our internal control over financial reporting to determine whether any changes occurred during the period covered by this report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. Based on our evaluation, we concluded that there has been no change during the fiscal quarter covered by this report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Any system of controls, however well designed and operated, can provide only reasonable, and not absolute, assurance that the objectives of the system will be met. In addition, the design of any control system is based in part upon certain assumptions about the likelihood of future events.

Table of Contents

PART II. OTHER INFORMATION

ITEM 1. Legal Proceedings

From time to time, we are subject to various legal proceedings and claims, either asserted or unasserted, that arise in the ordinary course of business. Although the outcome of the various legal proceedings and claims cannot be predicted with certainty, we have not had a history of outcomes to date that have been material to our statement of operations and do not believe that any of these proceedings or other claims will have a material effect on our consolidated financial condition or results of operations.

ITEM 1A. Risk Factors

The cyclical and highly volatile nature of the industries we serve could harm our operating results.

Our business and operating results depend in significant part upon capital expenditures by manufacturers in the semiconductor capital equipment, consumer, medical, energy, industrial, flat panel and research industries, which in turn depend upon the current and anticipated market demand for such products. Historically, the industries we serve (in particular the semiconductor industry) have been highly cyclical, with recurring periods of over-supply of products that have had a severe negative effect on the demand for capital equipment used to manufacture such products. We have experienced and anticipate that we will continue to experience significant fluctuations in customer orders for our products through such cycles. Slowdowns in the industries we serve have had, and future slowdowns may also have, a material adverse effect on our operating results. During periods of decreasing demand for our products, we must be able to appropriately align our cost structure with prevailing market conditions, effectively manage our supply chain and motivate and retain employees. During periods of increased demand, we must increase manufacturing capacity and inventory to meet customer demands, effectively manage our supply chain and attract, retain and motivate a sufficient number of employees. If the industries we serve experience downturns, or if we are not able to timely and appropriately adapt to the changes in our business environment, our results of operations will be harmed. Also, the cyclical and volatile nature of the industries we serve make future revenues, results of operations and net cash flows difficult to estimate.

We rely on a small number of original equipment manufacturing customers for a significant portion of our sales, and any adverse change in our relationships with these customers, including a decision by such customers to insource critical subsystems or to give market share to one of our competitors, would adversely affect our business, results of operation and financial condition. Our customers also exert a significant amount of negotiating leverage over us, which may require us to accept lower operating margins, increased liability risk or changes in our operations in order to retain or expand our market share with them.

A relatively small number of OEM customers have historically accounted for a significant portion of our sales, and we expect this trend to continue. As a group, two customers accounted for 77.5% of our sales for the nine month period ended September 25, 2015 and three customers accounted for 76.0% and 81.0% of our sales for fiscal years 2014 and 2013, respectively, and we expect that our sales will continue to be concentrated among a small number of customers. In addition, our customer contracts generally do not require customers to purchase any particular volume of products in any particular time period. Accordingly, the success of our business depends on OEMs continuing to outsource the manufacturing of critical subsystems to us. Because of the small number of OEMs in the markets we serve, most of which are already our customers, it would be difficult to replace lost revenue resulting from the loss of, or the reduction, cancellation or delay in purchase orders by, any one of these customers, whether due to their decision to not continue to outsource all or a portion of their critical subsystems for their capital equipment, their giving market share to our competitors or for other reasons, such as customer s bankruptcy or insolvency or decreased demand for such customer s products. We have in the past lost business from customers who have taken the manufacturing of our products in-house or given market share to our competitors. For example, in February 2015 we came to an agreement with ISI in which they would transition to insourced manufacturing for their next generation robot. Further, since our customers generally own the designs and other intellectual property to the products we manufacture, we cannot prevent them from licensing such designs and other intellectual property to our competitors for the manufacture of such products. If we are unable to replace revenue from customers who determine to take subsystem assembly in-house or give market share to our competitors, such events could have a material adverse impact on our financial position and results of operation.

In addition, consolidation among our customers, or a decision by any one or more of our customers to outsource all or most manufacturing and assembly work to a single equipment manufacturer, may further concentrate our business in a limited number of customers and expose us to increased risks relating to dependence on an even smaller number of customers.

In addition, by virtue of our largest customers size and the significant portion of revenue that we derive from them, as well as the competitive landscape, our customers are able to exert significant influence and pricing pressure in the negotiation of our commercial agreements and individual purchase orders and on the conduct of our business with them. Our customers often require reduced prices or other pricing, quality or delivery commitments as a condition to their awarding of market share to us or the placement of orders with us in any given period, which may, among other things, result in reduced operating margins in order to maintain or expand our market share. Our customers negotiating leverage also can result in customer agreements or terms and conditions that may contain significant liability risk to us. For example, some of our customers insist that we provide them indemnification against certain liabilities in our agreements with them, including claims of losses by their customers caused by our products, which may be uncapped. In some cases, we have determined to self-insure against liability risk in our customer agreements, meaning that we may be directly responsible for high magnitude liability claims by our customers without recourse to insurance proceeds from third-party insurers. Our customers may also pressure us to make other concessions in order to preserve or expand our market share with them, which may harm our business. For example, one or more of our customers may require us to move the manufacturing of our products from lower-cost geographies or locations such as China to higher-cost geographies or locations that are closer to such customer s facilities, such as Singapore, which could result in reduced margins and a sub-optimal cost structure. If we are unable to retain and expand our business with our customers on favorable terms, or at all, our business and operating results will be adversely affected, or we may be susceptible to increased liability risk which, if realized, may have a material adverse effect on our business, cash flows, results of operation and financial condition.

We have also had to qualify, and are required to maintain our qualified status, as a supplier for each of our customers. This is often a lengthy process that involves the inspection and approval by a customer of our engineering, documentation, manufacturing and quality control procedures before that customer will place volume orders. Our ability to lessen the adverse effect of any loss of, or reduction in sales to, an existing customer through the rapid addition of one or more new customers is limited because of these qualification requirements. Consequently, the risk that our business, operating results and financial condition would be adversely affected by the loss of or any reduction in orders by, any of our significant customers is increased. Moreover, if we lost our existing status as a qualified supplier to any of our customers, such customer could cancel its orders from us or otherwise terminate its relationship with us, which could have a material adverse effect on our results of operation, cash flows and financial condition.

We are exposed to risks associated with weakness in the global economy.

We rely to a significant extent on OEM customers, whose business, in turn, depends largely on consumer spending and capital expenditures by businesses. Continuing uncertainty regarding the global economy continue to pose challenges to our business. Economic uncertainty and related factors, including unemployment levels, interest rates, slow growth in China emerging markets, uncertainty in European debt markets, fiscal uncertainty in the U.S. economy, market volatility and the slow rate of recovery of many countries from recent recessions, exacerbate negative trends in business and consumer spending and may cause certain of our customers to push out, cancel, or refrain from placing orders for products or services, which may reduce sales and materially affect our results of operation and financial condition. Difficulties in obtaining capital, uncertain market conditions, or reduced profitability may also cause some customers to scale back operations, exit businesses, merge with other manufacturers, or file for bankruptcy protection and potentially cease operations, leading to customers reduced research and development funding and/or capital expenditures and, in turn, lower orders from our customers and/or additional slow moving or obsolete inventory or bad debt expense for us. These conditions may also similarly affect key suppliers, which could impair their ability to deliver parts and result in delays for our products or require us to either procure products from high-cost suppliers, or if no additional suppliers exist, to reconfigure the design and manufacture of our products, and we may be unable to fulfill some customer orders. For example, on October 6, 2014, one of our new customers GT Advanced Technologies (GTAT), filed for bankruptcy under chapter 11 of the Bankruptcy Code in the United States Bankruptcy Court for the District of New Hampshire which impaired the collectability of our outstanding accounts receivable as well as the value of our on-hand inventory related to GTAT and also resulted in a charge for non-cancelable vendor commitments.

We have significant existing indebtedness; the restrictive covenants under our credit agreement or other limitations on financing may limit our ability to expand or pursue our business strategy or make capital expenditures; if we

are forced to pay some or all of our indebtedness prior to its maturity, our financial position could be severely and adversely affected.

On February 2, 2015, we entered into a new credit agreement by and among us, certain of our subsidiaries, East West Bank and Citi National Bank. This credit agreement provides for a term loan in an aggregate principal amount of $40.0 million and a revolving credit facility in an aggregate principal amount of $40.0 million, a letter of credit facility in the aggregate availability amount of $20.0 million and a swingline sub-facility in the aggregate availability amount of $5.0 million. On February 2, 2015, we borrowed an aggregate of $46.5 million under this new credit agreement from East West Bank and Citi National Bank to repay the remaining outstanding balance from the loan obtained from Silicon Valley Bank, U.S. Bank National Association and HSBC Bank. On February 5, 2015, we borrowed an additional $29.7 million under this new credit agreement from East West Bank and Citi National Bank to finance the acquisition of Marchi. As of September 25, 2015, the long-term portion of our outstanding indebtedness under this new credit agreement, net of debt issuance costs, was $65.7 million, and the short-term portion was $11.2 million. In addition, we have $3.7 million of bank debt from the acquired company, Minconex.

Table of Contents

Our new credit agreement contains certain covenants that restrict our ability to take certain actions, including our ability to:

- incur additional debt, including guarantees, or create liens;
- pay dividends and make distributions in respect of our capital stock;
- repurchase capital stock;
- make investments or other restricted payments;
- engage in transactions with stockholders and affiliates;
- sell or otherwise dispose of assets;
- make payments on subordinated indebtedness; and
- engage in certain mergers and acquisitions, new lines of business or make other fundamental changes.

The restrictive covenants in our credit agreement may therefore limit our strategic and financing options and our ability to return capital to our stockholders through dividends or stock buybacks.

Our new credit agreement also requires us to maintain certain financial and other covenants. We cannot assure you that we will be able to maintain compliance with such financial or other covenants. Our failure to comply with these covenants could result in an event of default which, if not cured or waived, could result in the acceleration of all of our indebtedness, which would materially adversely affect our financial health if we are unable to access sufficient funds to repay all the outstanding amounts. Moreover, if we are unable to meet our debt obligations as they come due, we could be forced to restructure or refinance such obligations, seek additional equity financing or sell assets, which we may not be able to do on satisfactory terms, or at all.

In addition, the credit agreement has certain mandatory prepayment provisions, including annual prepayments of excess cash flow above certain thresholds. As long as our indebtedness remains outstanding, the restrictive covenants and mandatory prepayment provisions could impair our ability to expand or pursue our business strategies or obtain additional funding.

Our dependence on our suppliers may prevent us from delivering an acceptable product on a timely basis.

We rely on both single-source and sole-source suppliers, some of whom are relatively small, for many of the components we use in our products. In addition, our customers often specify components of particular suppliers that we must incorporate into our products. Our suppliers are under no obligation to provide us with components. As a result, the loss of or failure to perform by any of these suppliers could adversely affect our business and operating results. In addition, the manufacturing of certain components and subsystems is a complex process. Therefore, if a supplier were unable to provide the volume of components we require on a timely basis and at acceptable prices and quality, we would have to identify and qualify replacements from alternative sources. However, the process of qualifying new suppliers for complex components is also lengthy and could delay our production, which would adversely affect our business, operating results and financial condition.

We may also experience difficulty in obtaining sufficient supplies of components and raw materials in times of significant growth in our business. For example, we have in the past experienced shortages in supplies of various components, such as mass flow controllers, valves and regulators, and certain prefabricated parts, such as sheet metal enclosures, used in the manufacture of our products. In addition, one of our competitors manufactures mass flow controllers that may be specified by one or more of our customers. If we are unable to obtain these particular mass flow controllers from our competitor or convince a customer to select alternative mass flow controllers, we may be unable to meet that customer s requirements, which could result in a loss of market share.

If we, or our suppliers, are unable to procure sufficient quantities of components or raw materials from suppliers, it could influence decisions by our customers to delay or cancel orders and decisions by our vendors to fulfill our purchase orders and, consequently, have a material adverse effect on our results of operations.

We may not be able to respond quickly enough to changes in demand for our products.

Demand shifts in the industries we serve are rapid and difficult to predict, and we may not be able to anticipate or respond quickly enough to changes in demand. Our ability to increase sales of our products in periods of increasing demand depends, in part, upon our ability to:

- mobilize our supply chain in order to maintain component and raw material supply;
- optimize the use of our design, engineering and manufacturing capacity in a timely manner;
- deliver our products to our customers in a timely fashion;
- expand, if necessary, our manufacturing capacity; and
- maintain our product quality as we increase production.

Table of Contents

If we are unable to respond to rapid increases in demand for our products on a timely basis or to manage any corresponding expansion of our manufacturing capacity effectively, our customers could increase their purchases from our competitors, which would adversely affect our business.

Our ability to remain profitable and mitigate the impact on our business in periods of decreasing demand depends, in part, upon our ability to:

- optimize our inventory levels and reduce or cancel orders to our suppliers without compromising our relationships with such suppliers;
- reduce our variable costs through a reduction of our manufacturing workforce;
- continue to motivate our employees; and
- maintain the prices, quality and delivery cycles of our products in order to retain our customers business.

We may not be able to fund our future capital requirements or strategic acquisitions from our operations, and financing from other sources may not be available on favorable terms or at all.

We made capital expenditures of approximately $8.4 million and $2.1 million for the nine months period ended September 25, 2015 and September 26, 2014, respectively related to our manufacturing facilities in the United States, China and Singapore. In February 2015, we paid approximately $29.9 million and issued 1,437,500 shares of our common stock in connection with our acquisition of Marchi. The cash portion of the merger consideration was financed through the new credit facility described above; of which an aggregate of $73.7 million was outstanding as of September 25, 2015. In July 2015, we acquired Miconex for total consideration of $20.1 million which includes $15.0 million paid in cash, 500,000 shares of Company s common stock, and up to $4.0 million of potential cash earn-out payments over two-year period. The amount of our future capital requirements or strategic acquisitions will depend on many factors, including:

- the cost required to ensure access to adequate manufacturing capacity;
- the timing and extent of spending to support product development efforts;
- the timing of introductions of new products and enhancements to existing products;
- the cost required to integrate our acquisitions into our business, including into our enterprise resource planning system;

- changing manufacturing capabilities to meet new customer requirements;

- market acceptance of our products; and

- our ability to identify appropriate acquisition opportunities and successfully negotiate the terms of such acquisitions.

We had $59.8 million in cash and cash equivalents as of September 25, 2015 of which $47.4 million was held by our foreign subsidiaries. If the cash and cash equivalents held by our foreign subsidiaries is needed for our operations or to fund capital expenditures or other strategic acquisitions in the U.S., we would be required to accrue and pay U.S. taxes to repatriate these funds.

Given our significant existing leverage, limited availability under our new revolving line of credit and the potential tax effects of repatriating foreign cash or other factors, we may need to raise additional funds through public or private equity or debt financing if our current domestic cash and cash flow from operations are insufficient to fund our future activities. We may not be able to obtain additional debt financing when and if necessary in a timely manner. Access to capital markets has, in the past, been unavailable to companies such as ours and there can be no assurance that we would be able to complete an equity or other financing arrangement with terms satisfactory to us or at all. In addition, equity financings could be dilutive to holders of our common stock, and debt financings would likely involve additional covenants that restrict our business operations. Any potential strategic acquisition or significant capital expenditure may also require the consent of our existing lenders. If we cannot raise funds on acceptable terms, if and when needed, we may not be able to develop or enhance our products, take advantage of future opportunities, including potential acquisitions, grow our business or respond to competitive pressures or unanticipated requirements, any of which could adversely affect our business, operating results and financial condition.

Our quarterly revenue and operating results fluctuate significantly from period to period, and this may cause volatility in our common stock price.

Our quarterly revenue and operating results, including our gross margin, have fluctuated significantly in the past, and we expect them to continue to fluctuate in the future for a variety of reasons which may include:

- demand for and market acceptance of our products as a result of the cyclical nature of the industries we serve or otherwise, often resulting in reduced sales during industry downturns and increased sales during periods of industry recovery or growth;
- overall economic conditions;
- changes in the timing and size of orders by our customers;
- loss of business from one or more significant customers due to strategic decisions by our customers to terminate their outsourcing relationship with us or give market share to our competitors, or due to decreased demand for our customers products by end customers;
- strategic consolidation by our customers;
- cancellations and postponements of previously placed orders;
- pricing pressure from either our competitors or our customers, resulting in the reduction of our product prices, margins or loss of market share;
- disruptions or delays in the manufacturing of our products or in the supply of components or raw materials that are incorporated into or used to manufacture our products, thereby causing us to delay the shipment of products;
- decreased margins for several or more quarters following the introduction of new products, especially as we introduce new subsystems;
- delays in ramp-up in production, low yields or other problems experienced at our manufacturing facilities in China;
- changes in design-to-delivery cycle times;

inability to reduce our costs quickly in step with reductions in our prices or in response to decreased demand for our products;

changes in our mix of products sold;

write-offs of excess or obsolete inventory due to a customer s bankruptcy or insolvency;

one-time expenses or charges associated with failed acquisition negotiations or completed acquisitions;

inability to control our operating costs consistent with target levels;

announcements by our competitors of new products, services or technological innovations, which may, among other things, render our products less competitive; and

geographic mix of customer orders or worldwide earnings.

As a result of the foregoing, we believe that quarter-to-quarter comparisons of our revenue and operating results may not be meaningful and that these comparisons may not be an accurate indicator of our future performance. Changes in the timing or terms of a small number of transactions could disproportionately affect our operating results in any particular quarter. Moreover, our operating results in one or more future quarters may fail to meet our guidance or the expectations of securities analysts or investors. If this occurs, we would expect to experience an immediate and significant decline in the trading price of our common stock.

We have established, and as markets will allow, intend to expand our operations in Asia, which exposes us to risks associated with operating in a foreign country.

We generated approximately 33.3 % and 29.5% of our sales in international markets for the nine months period ended September 25, 2015 and September 26, 2014, respectively. Depending on market conditions, we intend to expand our operations in Asia, principally in China and Singapore. In addition, through our acquisition of AIT, we acquired a manufacturing facility in Cebu, Philippines. The carrying amount of our fixed assets in Asia was $9.8 million as of September 25, 2015.

We are exposed to political, economic, legal and other risks associated with operating in Asia, including:

foreign currency exchange fluctuations;

political, civil and economic instability;

tariffs and other barriers;

- 35 -

Table of Contents

- timing and availability of export licenses;
- disruptions to our and our customers operations due to increased risk of outbreak of diseases, such as SARS and avian flu;
- disruptions in operations due to China s developing domestic infrastructure, including transportation and energy;
- difficulties in developing relationships with local suppliers;
- difficulties in attracting new international customers;
- difficulties in accounts receivable collections;
- difficulties in staffing and managing distant international subsidiary and branch operations;
- the burden of complying with foreign and international laws and treaties;
- legal systems potentially subject to undue influence or corruption;
- difficulties in transferring funds to other geographic locations; and
- potentially adverse tax consequences, including restrictions on the repatriation of earnings to the United States.

In addition, due to generally lower labor and materials costs in the Asian markets in which we currently operate, a shift in the mix of orders from our customers away from such Asian markets could adversely affect our operating margins.

Our operations in Asia also subject us to U.S. laws governing the export of equipment. These laws are complex and require us to obtain clearances for the export to Asia of certain equipment. We may fail to comply with these laws and regulations, which could require us to cease the export of certain equipment and expose us to fines or penalties.

Over the past several years, the Chinese government has pursued economic reform policies, including the encouragement of private economic activity and greater economic decentralization. The Chinese government may not continue these policies or may significantly alter them to our detriment from time to time without notice. Changes in laws and regulations or their interpretation, the imposition of confiscatory taxation policies, new restrictions on currency conversion or limitations on sources of supply could materially and adversely affect our Chinese operations, which could result in the partial or total loss of our investment in that country and materially and adversely affect our future operating results.

We are subject to order and shipment uncertainties and any significant reductions, cancellations or delays in customer orders could cause our revenue to decline and our operating results to suffer.

Our revenue is difficult to forecast because we generally do not have a material backlog of unfilled orders and because of the short time frame within which we are often required to design, produce and deliver products to our customers. Most of our revenue in any quarter depends on customer orders for our products that we receive and fulfill in the same quarter. We do not have long-term purchase orders or contracts that contain minimum purchase commitments from our customers. Instead, we receive non-binding forecasts of the future volume of orders from our customers. Occasionally, we order and build component inventory in advance of the receipt of actual customer orders. Customers may cancel order forecasts, change production quantities from forecasted volumes or delay production for reasons beyond our control. Furthermore, reductions, cancellations or delays in customer order forecasts, which may occur for various reasons, including reduced demand for our customer s products, customer bankruptcies or customer insolvency, usually occur without penalty to, or compensation from, the customer. Reductions, cancellations or delays in forecasted orders could cause us to hold inventory longer than anticipated, which could reduce our gross profit, restrict our ability to fund our operations and cause us to incur unanticipated reductions or delays in revenue. Moreover, most of the products we manufacture are custom built for our customers and are therefore not fungible with products we sell to other customers. If we do not obtain orders as we anticipate, we could have excess component inventory for a specific product that we would not be able to sell to another customer, likely resulting in inventory write-offs, which could have a material adverse effect on our business, financial condition and operating results. In addition, because many of our costs are fixed in the short term, we could experience deterioration in our gross profit and operating margins when our production volumes decline.

The manufacturing of our products is highly complex, and if we are not able to manage our manufacturing and procurement process effectively, our business and operating results will suffer.

The manufacturing of our products is a highly complex process that involves the integration of multiple components and requires effective management of our supply chain while meeting our customers design-to-delivery cycle time requirements. Through the course of the manufacturing process, our customers may modify design and system configurations in response to changes in their own customers requirements. In order to rapidly respond to these modifications and deliver our products to our customers in a timely manner, we must effectively manage our manufacturing and procurement process. If we fail to manage this process effectively, we risk losing customers and damaging our reputation. We may also be subject to liability under our agreements with our customers if we or our suppliers fail to re-configure manufacturing processes or components in response to these modifications, which may lead to product defect claims by our customers. In addition, if we acquire inventory in excess of demand or that does not meet customer specifications, we could incur excess or obsolete inventory charges. These risks are even greater during the current extended period of macroeconomic uncertainty, and as we continue to expand our business beyond gas delivery systems into new subsystems. Certain of our suppliers may go out of business, which could require us to either procure products from higher-cost suppliers or, if no additional suppliers exist, reconfigure the design and manufacture of our products. This could limit our growth and have a material adverse effect on our business, financial condition and operating results.

If our new products are not accepted by OEMs or other customers or if we are unable to obtain historical margins on our new products, our operating results would be adversely impacted.

We design, develop and market critical systems and subsystems to OEMs and other customers. The introduction of new products is inherently risky because it is difficult to foresee the adoption of new standards, coordinate our technical personnel and strategic relationships and win acceptance of new products by OEMs and other customers. We may not be able to recoup design and development expenditures if our new products are not accepted by OEMs or other customers. Newly introduced products typically carry lower gross margins than existing products for several or more quarters following their introduction. If any of our new systems or subsystems are not successful in the market, or if we are unable to obtain gross margins on new products that are similar to the gross margins we have historically achieved, our business, operating results and financial condition could be adversely affected.

Interruption or failure of our information technology and communications systems could impair our ability to effectively deliver our products, which could cause us to lose customers and harm our results of operations.

The manufacture and delivery of our products depends on the continuing operation of our technology infrastructure and systems, particularly our data center located in California. Any damage to or failure of our systems could result in interruptions in our ability to manufacture or deliver products on agreed upon lead times, or at all, on a local or worldwide basis. Interruptions could reduce our sales and profits, and our reputation could be damaged if people believe our systems are unreliable. Our systems and operations are vulnerable to damage or interruption from earthquakes, terrorist attacks, floods, fires, power loss, hacking, hardware or software failures, telecommunications failures, computer viruses or other attempts to harm our systems, and similar events. The critical components of the system are not redundant and we currently do not have a backup data center. Accordingly, the risk associated with earthquakes, fire, power loss, telecommunications failure, and other events beyond our control is heightened.

Any unscheduled interruption in our manufacturing or deliveries would result in an immediate loss of sales and could have a material adverse effect on our results of operation and financial position. If we experience frequent or persistent system failures, the attractiveness of our products to customers could be permanently harmed. Any steps we take to increase the reliability and redundancy of our systems may be expensive, reduce our operating margin and may not be successful in reducing the frequency or duration of unscheduled interruptions.

Acquisitions could result in operating and integration difficulties, dilution, margin deterioration and other consequences that may adversely impact our business and results of operations.

We have made, and may in the future make, acquisitions of, or significant investments in, businesses that offer complementary products, services, technologies or market access. We expect that management will evaluate potential strategic transactions regularly with its advisors and our board of directors in the ordinary course of business. We may not be successful in negotiating the terms of potential acquisitions or financing potential acquisitions, and our due diligence may fail to identify all of the problems, liabilities or other challenges associated with an acquired business, product or technology, including issues related to intellectual property, product quality or product architecture, regulatory compliance practices, revenue recognition or other accounting practices or employee or customer retention issues. In addition, we may not be successful in effectively integrating the acquired business, product or technology into our existing business and operations. The areas where we face risks include:

Management of the larger, more complex, combined business, including integrating supply and distribution channels, computer and accounting systems, and other aspects of operations;

Deterioration of gross margins due to the acquisition of the same customer base resulting in reduced pricing leverage;

Integration of the capabilities of the acquired businesses while maintaining focus on providing consistently high quality products;

Incorporation of different financial and reporting controls, processes, systems and technologies into our existing business environment;

Unknown liabilities and unforeseen expenses, delays or regulatory conditions associated with the acquisitions for which we do not have recourse under their respective agreements;

Performance shortfalls as a result of the diversion of management s attention from the company s operations;

Cultural challenges associated with integrating employees from the acquired business into our organization, and retention of employees from the businesses we acquire;

Retention of customers and partners of acquired business; and/or

Difficulties associated with the transition of customers into our existing business.

Our failure to address these risks or other problems encountered in connection with our past or future acquisitions and investments could cause us to fail to realize the anticipated benefits of such acquisitions or investments, incur unanticipated liabilities and substantial costs, and materially harm our business generally.

Our acquisitions could also result in dilutive issuances of our equity securities, the incurrence of debt, contingent liabilities, or amortization expenses, impairment charges and restructuring charges, any of which could harm our financial condition or results. Also, the anticipated benefits or value of our acquisitions or investments may not materialize. Even if an acquisition or other investment is not completed, we may incur significant management time and effort and financial cost in evaluating such acquisition or investment, which could have an adverse effect on our results of operations. Furthermore, due to limited liquidity in the credit market and our existing leverage, the financing of any such acquisition may be difficult to obtain, and the terms of such financing may not be favorable.

If we were required to write down all or part of our goodwill and other intangible assets, our net income and net worth could be materially adversely affected.

We had $129.4 million of goodwill and other intangible assets recorded on our consolidated balance sheet as of September 25, 2015. Goodwill represents the excess of cost over the fair market value of net tangible and finite lived, identifiable intangible assets acquired in business combinations. If our market capitalization drops significantly below the amount of net equity recorded on our balance sheet, it could indicate a decline in our value and would require us to further evaluate whether our goodwill has been impaired. During the fourth quarter of each year, we perform an annual review of our goodwill to determine if it has become impaired, in which case we would write down the impaired portion of our goodwill. We also evaluate goodwill for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If we were required to write down all or a significant part of our goodwill, our financial results and net worth could be materially adversely affected.

Our business is largely dependent on the know-how of our employees, and we generally do not have an intellectual property position that is protected by patents.

Our business is largely dependent upon our design, engineering, manufacturing and testing know-how. We rely on a combination of trade secrets and contractual confidentiality provisions and, to a much lesser extent, patents, copyrights and trademarks to protect our proprietary rights. Accordingly, our intellectual property position is more vulnerable than it would be if it were protected primarily by patents. If we fail to protect our proprietary rights successfully, our competitive position could suffer, which could harm our operating results. We may be required to spend significant resources to monitor and protect our proprietary rights, and, in the event infringement or breach of our proprietary rights occurs, our competitive position in the market may be harmed. In addition, competitors may design around our technology or develop competing technologies and know-how. Further, since our customers generally own the designs and other intellectual property to the products we manufacture, we cannot prevent them from licensing such designs and other intellectual property to our competitors for the manufacture of such products.

Third parties have claimed and may in the future claim we are infringing their intellectual property, which could subject us to litigation or licensing expenses, and we may be prevented from selling our products if any such claims prove successful.

We have in the past and may in the future receive claims that our products, processes or technologies infringe the patents or other proprietary rights of third parties. In addition, we may be unaware of intellectual property rights of others that may be applicable to our products. Any litigation regarding our patents or other intellectual property could be costly and time-consuming and divert our management and key personnel from our business operations, any of which could have a material adverse effect on our business and results of operations. The complexity of the technology involved in our products and the uncertainty of intellectual property litigation increase these risks. Claims of intellectual property infringement may also require us to enter into costly license agreements. However, we may not be able to obtain licenses on terms acceptable to us, or at all. We also may be subject to significant damages or injunctions against the development, manufacture and sale of certain of our products if any such claims prove successful. We also rely on design specifications and other intellectual property of our customers in the manufacture of products for such customers. While our customer agreements generally provide for indemnification of us by our customers if we are subjected to litigation for third-party claims of infringement of such customer intellectual property, such indemnification provisions may not be sufficient to fully protect us from such claims, or our customers may breach such indemnification obligations to us, which could result in costly litigation to defend against such claims or enforce our contractual rights to such indemnification.

If we do not keep pace with developments in the industries we serve and with technological innovation generally, our products may not be competitive.

Rapid technological innovation in the markets we serve requires us to anticipate and respond quickly to evolving customer requirements and could render our current product offerings and technology obsolete. Technological innovations are inherently complex. We must devote resources to technology development in order to keep pace with such rapidly evolving technologies. We believe that our future success will depend upon our ability to design, engineer and manufacture products that meet the changing needs of our customers. This requires that we successfully anticipate and respond to technological changes in design, engineering and manufacturing processes in a cost-effective and timely manner. If we are unable to integrate new technical specifications into competitive product designs, develop the technical capabilities necessary to manufacture new products or make necessary modifications or enhancements to existing products, our business prospects could be harmed.

The timely development of new or enhanced products is a complex and uncertain process which requires that we:

- design innovative and performance-enhancing features that differentiate our products from those of our competitors;
- identify emerging technological trends in the industries we serve, including new standards for our products;
- accurately identify and design new products to meet market needs;
- collaborate with OEMs to design and develop products on a timely and cost-effective basis;
- ramp-up production of new products, especially new subsystems, in a timely manner and with acceptable yields at acceptable costs;
- successfully manage development production cycles; and
- respond effectively to technological changes or product announcements by others.

If we are unsuccessful in keeping pace with technological developments for the reasons above or other reasons, our business prospects, results of operations and financial condition could be materially and adversely affected.

The industries in which we participate are highly competitive and rapidly evolving, and if we are unable to compete effectively, our operating results will be harmed.

We face intense competition from subsystem and component manufacturers in the industries we serve. Increased competition has in the past resulted, and could in the future result, in price reductions, reduced gross margins or loss of market share, any of which would harm our operating results. We are subject to significant pricing pressure as we attempt to maintain and increase market share with our existing customers. Competitors may offer reduced prices or introduce new products for the markets currently served by our products. These products may have better performance, lower prices and achieve broader market acceptance than our products. Further, OEMs typically own the design rights to their products and may provide these designs to other subsystem manufacturers. If our competitors obtain proprietary rights to these designs such that we are unable to obtain the designs necessary to manufacture products for our OEM customers, our business, financial condition and operating results could be adversely affected.

Our competitors may have greater financial, technical, manufacturing and marketing resources than we do. As a result, they may be able to respond more quickly to new or emerging technologies and changes in customer requirements, devote greater resources to the development, promotion, sale and support of their products, and reduce prices to increase market share. Moreover, there may be merger and acquisition activity among our competitors and potential competitors that may provide our competitors and potential competitors an advantage over us by enabling them to expand their product offerings and service capabilities to meet a broader range of customer needs. Further, if one of our customers develops or acquires the internal capability to develop and produce critical systems or subsystems that we produce, the loss of that customer could have a material adverse effect on our business, financial condition and operating results. The introduction of new technologies and new market entrants may also increase competitive pressures.

We must achieve design wins to retain our existing customers and to obtain new customers.

New capital equipment typically has a lifespan of several years, and OEMs frequently specify which systems, subsystems, components and instruments are to be used in their equipment. Once a specific system, subsystem, component or instrument is incorporated into a piece of capital equipment, it will likely continue to be incorporated into that piece of equipment for at least several months before the OEM would be in a position to switch to the product of another supplier. Accordingly, it is important that our products are designed into the new capital equipment of OEMs, which we refer to as a design win, in order to retain our competitive position with existing customers and to obtain new customers.

Table of Contents

We incur technology development and sales expenses with no assurance that our products will ultimately be designed into an OEM s capital equipment. Further, developing new customer relationships, as well as maintaining and increasing our market share at existing customers, requires a substantial investment of our sales, engineering and management resources without any assurance from prospective customers that they will place significant orders. We believe that OEMs often consider long-term relationships in selecting and placing orders with suppliers. Accordingly, we may have difficulty achieving design wins from OEMs that are not currently our customers. Our operating results and potential growth could be adversely affected if we fail to achieve design wins with leading OEMs.

Defects in our products could damage our reputation, decrease market acceptance of our products, cause the unintended release of hazardous materials and result in potentially costly litigation or indemnification liability.

A number of factors, including design flaws, material and component failures, workmanship issues, contamination in the manufacturing environment, impurities in the materials used and unknown sensitivities to process conditions, such as temperature and humidity, as well as equipment failures, may cause our products to contain undetected errors or defects. Problems with our products may:

- cause delays in product introductions and shipments for us or our customers;
- result in increased costs and diversion of development resources;
- cause us to incur increased charges due to unusable inventory;
- require design modifications;
- result in liability for the unintended release of hazardous materials or other damages to our or our customers property;
- create claims for rework, replacement and/or damages under our contracts with customers, as well as indemnification claims from customers;
- decrease market acceptance of, or customer satisfaction with, our products, which could result in decreased sales and product returns; or
- result in lower yields for semiconductor manufacturers.

If any of our products contain defects or have reliability, quality or compatibility problems, our reputation might be damaged and customers might be reluctant to buy our products. We may also face a higher rate of product defects as we increase our production levels. Product defects could result in warranty and indemnification liability, the loss of existing customers or impair our ability to attract new customers. In addition, we may not find defects or failures in our products until after they are installed in a manufacturer s fabrication facility. We may have to invest significant capital and other resources to correct these problems. Our current or potential customers also might seek to recover from us any losses resulting from defects or failures in our products. Hazardous materials flow through and are controlled by our products and an unintended release of these materials could result in serious injury or death. Liability claims could require us to spend significant time and money in litigation or pay significant damages or indemnification claims.

The technology labor market is very competitive, and our business will suffer if we are unable to hire and retain key personnel.

Our future success depends in part on the continued service of our key executive officers, as well as our research, engineering, sales, manufacturing and administrative personnel, most of whom are not subject to employment or non-competition agreements. In addition, competition for qualified personnel in the technology industry is intense, and we operate in geographic locations in which labor markets are particularly competitive.

Our business is particularly dependent on expertise which only a limited number of engineers possess. The loss of any of our key employees and officers, including our Chief Executive Officer (CEO), our Chief Financial Officer, any of our Senior Vice Presidents or any of the senior managers, or the failure to attract and retain new qualified employees, could adversely affect our business, operating results and financial condition. Further, our Chairman and (former) Chief Executive Officer, Clarence L. Granger retired as our CEO effective January 19, 2015. If our transition of Mr. Granger s roles and responsibilities to our new CEO, James P. Scholhamer is not successful, our business, financial results and financial position could be materially adversely affected.

The challenges of employee retention has also increased during the integration process with AIT because of the necessity of combining personnel with varied business backgrounds and combining different corporate cultures and objectives, and several AIT employees, including members of AIT s senior management, have left our company. The process of integrating operations and making such adjustments could cause an interruption of, or loss of momentum in, the activities of one or more of our businesses and the loss of key personnel. Employee uncertainty, lack of focus or turnover during the integration process may also disrupt our businesses. We may experience similar challenges with the integration of Marchi and Miconex s employees and business.

If we fail to maintain an effective system of internal controls, we might not be able to report our financial results accurately or prevent fraud; in that case, our stockholders could lose confidence in our financial reporting, which would harm our business and could negatively impact the price of our stock.

Effective internal controls are necessary for us to provide reliable financial reports and prevent fraud. In addition, Section 404 of the Sarbanes-Oxley Act of 2002 requires us and our independent registered public accounting firm to evaluate and report on our internal control over financial reporting. The process of maintaining and updating our internal controls and complying with Section 404 is expensive and time consuming, and requires significant attention from management and company resources. In addition, beginning in fiscal year 2013, we were required to evaluate and report on AIT s internal controls and the attestation report we are required to obtain from our independent registered public accounting firm must include AIT s internal control over financial reporting. Integrating AIT s internal control framework into the Company and upgrading AIT s controls to comply with the Sarbanes-Oxley Act has required substantial resources, and we cannot assure you that we will be able to successfully or effectively maintain adequate controls over our financial processes at AIT or for our consolidated business. In addition, even though we have concluded, and our independent registered public accounting firm has concurred, that our internal control over financial reporting provides reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles as of December 26, 2014, because of its inherent limitations, internal control over financial reporting may not prevent or detect fraud or misstatements, and our internal control may not be effective as of future periods. Failure to maintain existing or implement new or improved controls, or difficulties encountered in their implementation, could harm our results of operations or cause us to fail to meet our reporting obligations. If we or our independent registered public accounting firm discover a material weakness, the disclosure of that fact, even if quickly remedied, could reduce the market s confidence in our financial statements and harm our stock price.

Fluctuations in currency exchange rates may adversely affect our financial condition and results of operations.

Our international sales are denominated primarily, though not entirely, in U.S. dollars. Many of the costs and expenses associated with our Chinese subsidiaries, Singapore and Czech Republic subsidiaries are paid in Chinese Renminbi, Singapore dollars, and Euro respectively and we expect our exposure to Chinese Renminbi, Singapore dollars and Euro to increase as we increase production in those facilities. In addition, purchases of some of our components are denominated in Japanese Yen and Euros. Changes in exchange rates among other currencies in which our revenue or costs are denominated and the U.S. dollar may affect our revenue, cost of sales and operating margins.

The Company uses derivative instruments, such as foreign currency forward contracts, to hedge certain exposures to fluctuations in foreign currency exchange rates. The use of such hedging activities may not offset any, or more than a portion, of the adverse financial effects of unfavorable movements in foreign exchange rates over the limited time the hedges are in place.

If environmental contamination were to occur in one of our manufacturing facilities, we could be subject to substantial liabilities.

We use substances regulated under various foreign, domestic, federal, state and local environmental laws in our manufacturing facilities. In addition, we may not be aware of or in compliance with all environmental laws or regulations that could subject us to liability in the U.S. or internationally. Our failure or inability to comply with existing or future environmental laws could result in significant remediation liabilities, the imposition of fines or the suspension or termination of the production of our products, and thus a material adverse impact on our business.

Our business is subject to the risks of earthquakes, fire, power outages, floods, and other catastrophic events, and to interruption by man-made disruptions, such as terrorism.

Our facilities could be subject to a catastrophic loss caused by natural disasters, including fires and earthquakes. We have facilities in areas with above average seismic activity, such as our manufacturing facility in South San Francisco, California and our manufacturing and headquarters facilities in Hayward, California. If any of our facilities were to experience a catastrophic loss, it could disrupt our operations, delay production and shipments, reduce revenue and result in large expenses to repair or replace the facility. In addition, we have in the past experienced, and may in the future experience, extended power outages at our facilities. We do not carry insurance policies that cover potential losses caused by earthquakes or other natural disasters or power loss.

In addition, disruption in supply resulting from natural disasters or other causalities or catastrophic events, such as earthquakes, severe weather such as storms or floods, fires, labor disruptions, power outages, terrorist attacks or political unrest, may result in certain of our suppliers being unable to deliver sufficient quantities of components or raw materials at all or in a timely manner, disruptions in our operations or disruptions in our customers operations. For example, in 2011, the northern region of Japan experienced a severe earthquake followed by a tsunami. These geological events caused significant damage in that region and adversely affected Japan s infrastructure and economy. Some of our suppliers are located in Japan and they have experienced, and may experience in the future, shutdowns or disruptions as a result of these types of events, and their operations may be negatively impacted by these events. Many of our customers and suppliers are also located in California, and may be subject to the same risk of seismic activity as described for us above.

To the extent that natural disasters or other calamities or causalities should result in delays or cancellations of customer orders, or the delay in the manufacture or shipment of our products or services, our business, financial condition and operating results would be adversely affected.

Changes in tax rates or tax assets and liabilities could affect results of operations.

As a global company, we are subject to taxation in the United States and various other countries. Significant judgment is required to determine and estimate worldwide tax liabilities. Our future annual and quarterly tax rates could be affected by numerous factors, including changes in the: (1) applicable tax laws; (2) amount and composition of pre-tax income in countries with differing tax rates; or (3) valuation of our deferred tax assets and liabilities.

In addition, we are subject to regular examination by the Internal Revenue Service and other tax authorities, and from time to time we initiate amendments to previously filed tax returns. We regularly assess the likelihood of favorable or unfavorable outcomes resulting from these examinations and amendments to determine the adequacy of our provision for income taxes, which requires estimates and judgments. Although we believe our tax estimates are reasonable, there can be no assurance that the tax authorities will agree with such estimates. We may have to engage in litigation to achieve the results reflected in the estimates, which may be time-consuming and expensive. There can be no assurance that we will be successful or that any final determination will not be materially different from the treatment reflected in our historical income tax provisions and accruals, which could materially and adversely affect our financial condition and results of operations.

We are currently enjoying a zero rate tax holiday in Singapore that is scheduled to expire at the end of fiscal year 2015. This tax rate is subject to achieving certain commitments agreed to with the Singapore tax authorities, including investment and employment thresholds, and our tax rate could be significantly affected if we are unable to meet these commitments or if we are unable to favorably renegotiate the commitment requirements.

The market for our stock is subject to significant fluctuation.

The size of our public market capitalization is relatively small, and the average volume of our shares that are traded is relatively low. The market price of our common stock could be subject to significant fluctuations. Among the factors that could affect our stock price are:

- quarterly variations in our operating results;
- our ability to successfully introduce new products and manage new product transitions;
- changes in revenue or earnings estimates or publication of research reports by analysts;

speculation in the press or investment community;

strategic actions by us, our customers or our competitors, such as acquisitions or restructurings;

announcements relating to any of our key customers, significant suppliers or the semiconductor manufacturing and capital equipment industry generally;

general market conditions;

the effects of war and terrorist attacks; and

domestic and international economic factors unrelated to our performance.

The stock markets in general, and the markets for technology stocks in particular, have experienced extreme volatility that has often been unrelated to the operating performance of particular companies. These broad market fluctuations may adversely affect the trading price of our common stock.

New regulations related to conflict minerals could adversely impact our business.

The Dodd-Frank Wall Street Reform and Consumer Protection Act contains provisions to improve transparency and accountability concerning the supply of certain minerals, known as conflict minerals, originating from the Democratic Republic of Congo (DRC) and adjoining countries. As a result, in August 2012 the SEC adopted annual disclosure and reporting requirements for those companies who use conflict minerals mined from the DRC and adjoining countries in their products. These requirements require us to perform on-going due diligence efforts on our supply chain and require public disclosure of the nature and results of these efforts. We filed our most recent conflict minerals report on Form SD on June 1, 2015 reporting that we could not yet determine whether the conflict minerals we source were, directly or indirectly, used to finance or benefit armed groups in the Covered Countries. There have been and there will be costs associated with complying with these disclosure requirements to determine the sources of conflict minerals used in our products and other potential changes to products, processes or sources of supply as a consequence of such verification activities. Complying with these rules could adversely affect the sourcing, supply and pricing of materials used in our products and result in substantial additional costs. As there may be only a limited number of suppliers offering conflict free conflict minerals, we cannot be sure that we will be able to obtain necessary conflict minerals from such suppliers in sufficient quantities or at competitive prices. Also, we may face reputational challenges if we determine that certain of our products contain minerals not determined to be conflict free or if we are unable to sufficiently verify the origins for all conflict minerals used in our products through the procedures we may implement. In addition, if we are unable to comply with these rules, we could be subject to enforcement actions by the Securities and Exchange Commission and liability under the Securities Exchange Act of 1934, as amended, which could result in material adverse consequences to our business, as well as significant fines and penalties.

If securities or industry analysts do not publish research or reports about our business, or if they issue an adverse opinion regarding our stock, our stock price and trading volume could decline.

The trading market for our common stock is influenced by the research and reports that industry or securities analysts publish about us or our business. If any of the analysts who cover us issue an adverse opinion regarding our stock, our stock price would likely decline. If one or more of these analysts ceases coverage of our company or fails to publish reports on us regularly, we could lose visibility in the financial markets, which in turn could cause our stock price or trading volume to decline.

We do not currently intend to pay dividends on our common stock and, consequently, your ability to achieve a return on your investment will depend on appreciation in the price of our common stock.

We do not intend to declare and pay dividends on our capital stock for the foreseeable future. We currently intend to invest our future earnings, if any, to fund our growth. Additionally, the terms of the credit agreement we entered into in February 2015 restrict our ability to pay dividends. Therefore, you are not likely to receive any dividends on your common stock for the foreseeable future.

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

In connection with the acquisition of Miconex, on July 31, 2015, we issued 500,000 shares of our common stock as part of the purchase price in reliance upon an exemption from the registration requirements of the Securities Act of 1933 provided by Section 4(a)(2) thereof. Former owners of Miconex made certain representations to the Company as to investment intent and that they possessed a sufficient level of financial sophistication. The unregistered shares are subject to restrictions on transfer absent registration under or in compliance with the Securities Act of 1933. The shares issued are also subject to certain lockup restrictions that terminate in equal semi-annual installments over two years from the closing date of the acquisition, beginning six months following the closing date.

ITEM 3. Defaults Upon Senior Securities
None.

ITEM 4. Mine Safety Disclosures
Not Applicable.

ITEM 5. Other Information
None.

ITEM 6. Exhibits
(a) Exhibits

Table of Contents

The following exhibits are filed with this current Report on Form 10-Q for the quarter ended September 25, 2015:

Exhibit Number	**Description**
2.1(1)	Purchase Agreement, dated as of July 28, 2015, among Ultra Clean Holdings, Inc., a wholly-owned, indirect acquisition subsidiary of Ultra Clean Holdings, Inc., Stenen one a.s. and Juves one a.s. relating to the acquisition of 100% of the shareholding interest of MICONEX s.r.o.
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of the Chief Executive Officer and the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Calculation Linkbase Document
101.DEF	XBRL Taxonomy Definition Linkbase Document
101.LAB	XBRL Taxonomy Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

(1) Incorporated by reference from our Current Report on Form 8-K filed on August 3, 2015.

Table of Contents

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.

ULTRA CLEAN HOLDINGS, INC.
(Registrant)

Date: November 4, 2015

By:	/S/ JAMES P. SCHOLHAMER
Name:	**James P. Scholhamer**
Title:	**Chief Executive Officer (Principal Executive Officer and duly authorized signatory)**

Date: November 4, 2015

By:	/S/ KEVIN C. EICHLER
Name:	**Kevin C. Eichler**
Title:	**President and Chief Financial Officer (Principal Financial Officer and duly authorized signatory)**

Table of Contents

Exhibit Index

Exhibit Number	Description
2.1(1)	Purchase Agreement, dated as of July 28, 2015, among Ultra Clean Holdings, Inc., a wholly-owned, indirect acquisition subsidiary of Ultra Clean Holdings, Inc., Stenen one a.s. and Juves one a.s. relating to the acquisition of 100% of the shareholding interest of MICONEX s.r.o.
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of the Chief Executive Officer and the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Calculation Linkbase Document
101.DEF	XBRL Taxonomy Definition Linkbase Document
101.LAB	XBRL Taxonomy Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

(1) Incorporated by reference from our Current Report on Form 8-K filed on August 3, 2015.