Ultra Clean Holdings, Inc.
Form 10-Q
May 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 March 27, 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 **(State or other jurisdiction of** **incorporation or organization)**	**61-1430858** **(I.R.S. Employer** **Identification No.)**
26462 Corporate Avenue, Hayward, California **(Address of principal executive offices)**	**94545** **(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 April 24, 2015: 31,615,185

Table of Contents

ULTRA CLEAN HOLDINGS, INC.

TABLE OF CONTENTS

	PART I. FINANCIAL INFORMATION	
ITEM 1.	UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS	3
ITEM 2.	MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS	21
ITEM 3.	QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK	28
ITEM 4.	CONTROLS AND PROCEDURES	29
	PART II. OTHER INFORMATION	
ITEM 1.	LEGAL PROCEEDINGS	30
ITEM 1A.	RISK FACTORS	30
ITEM 2.	UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS	47
ITEM 3.	DEFAULTS UPON SENIOR SECURITIES	47
ITEM 4.	MINE SAFETY DISCLOSURES	47
ITEM 5.	OTHER INFORMATION	47
ITEM 6.	EXHIBITS	47
SIGNATURES		49

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)

	March 27, 2015	December 26, 2014
ASSETS		
Current assets:		
Cash and cash equivalents	$ 69,607	$ 78,997
Accounts receivable, net of allowance of $81 in 2015 and 2014	69,625	61,817
Inventory	59,912	56,850
Deferred tax assets, net of valuation allowance	3,777	3,777
Prepaid expenses and other	8,094	7,006
Total current assets	211,015	208,447
Equipment and leasehold improvements, net	14,476	10,841
Goodwill	74,298	55,918
Purchased intangibles, net	39,057	16,824
Deferred tax assets, net of valuation allowance	3,120	3,445
Other non-current assets	747	667
Total assets	$ 342,713	$ 296,142
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Bank borrowings	$ 4,847	$ 9,541
Accounts payable	50,128	48,944
Accrued compensation and related benefits	5,310	5,308
Deferred rent, current portion	442	245
Other current liabilities	2,738	2,130
Total current liabilities	63,465	66,168
Bank borrowings, net of current portion	70,756	38,614
Deferred rent and other liabilities	2,901	2,808
Total liabilities	137,122	107,590

Commitments and contingencies (See Note 8)		
Stockholders equity:		
Preferred stock $0.001 par value, 10,000,000 authorized; none outstanding		
Common stock $0.001 par value, 90,000,000 authorized; 31,485,459 and 29,562,338 shares issued and outstanding, in 2015 and 2014, respectively	32	30
Additional paid-in capital	169,005	153,141
Common shares held in treasury, at cost, 601,944 shares in 2015 and 2014	(3,337)	(3,337)
Retained earnings	39,891	38,718
Total stockholders equity	205,591	188,552
Total liabilities and stockholders equity	$ 342,713	$ 296,142

(See accompanying notes to condensed consolidated financial statements)

ULTRA CLEAN HOLDINGS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited; in thousands, except per share data)

	Three months ended	
	March 27, 2015	March 28, 2014
Sales	$ 125,318	$ 144,224
Cost of goods sold	105,399	120,913
Gross profit	19,919	23,311
Operating expenses:		
Research and development	2,566	1,767
Sales and marketing	2,845	2,661
General and administrative	11,860	9,722
Total operating expenses	17,271	14,150
Income from operations	2,648	9,161
Interest and other income (expense), net	(956)	(629)
Income before provision for income taxes	1,692	8,532
Income tax provision	519	1,476
Net income	$ 1,173	$ 7,056
Net income per share:		
Basic	$ 0.04	$ 0.24
Diluted	$ 0.04	$ 0.24
Shares used in computing net income per share:		
Basic	30,485	28,877
Diluted	30,964	29,918

(See accompanying notes to condensed consolidated financial statements)

Table of Contents

ULTRA CLEAN HOLDINGS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited; in thousands)

	Three months ended	
	March 27, 2015	**March 28, 2014**
Cash flows from operating activities:		
Net income	$ 1,173	$ 7,056
Adjustments to reconcile net income to net cash provided (used) by operating activities:		
Depreciation and amortization	904	747
Amortization of finite lived intangibles	1,137	1,221
Amortization of debt issuance costs	714	122
Stock-based compensation	474	1,019
Excess tax benefit from stock-based compensation	129	(1,404)
Changes in assets and liabilities:		
Accounts receivable	(7,808)	(4,747)
Inventory	(1,765)	(3,519)
Prepaids and other	(1,088)	(130)
Deferred income taxes	325	81
Other non-current assets	(54)	209
Accounts payable	(6)	1,483
Accrued compensation and related benefits	2	(211)
Income taxes payable	(129)	1,405
Other liabilities	340	684
Net cash provided (used) by operating activities	(5,652)	4,016
Cash flows from investing activities:		
Acquisition of Marchi	(29,734)	
Purchases of equipment and leasehold improvements	(2,582)	(512)
Disposal of equipment and leasehold improvements		66
Net cash used in investing activities	(32,316)	(446)
Cash flows from financing activities:		
Proceeds from term debt and revolving credit facility	76,189	11,000
Principal payments on term debt and revolving credit facility	(48,844)	(2,500)
Payments of debt issuance costs	(500)	
Excess tax benefit from stock-based compensation	(129)	1,404
Employees taxes paid upon vesting of restricted stock units	(330)	(1,334)
Proceeds from issuance of common stock	2,192	1,734
Net cash provided in financing activities	28,578	10,304

Net increase (decrease) in cash	$	(9,390)	$	13,874
Cash and cash equivalents at beginning of period		78,997		60,415
Cash and cash equivalents at end of period	$	69,607	$	74,289
Supplemental items:				
Cash paid during the period:				
Income taxes paid	$	598	$	918
Income tax refunds	$		$	1,356
Interest	$	689	$	564
Non-cash activities:				
Fair value of common shares issued for acquisition	$	13,843		
Equipment and leasehold improvements purchased included in accounts payable	$	1,538	$	114

(See accompanying notes to condensed consolidated financial statements)

Table of Contents

ULTRA CLEAN HOLDINGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Organization and Significant Accounting Policies

Organization Ultra Clean Holdings, Inc. (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 better 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 immediately 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 its 3D printing business in Singapore through a $40,000 acquisition of a privately held company, Prototype Asia, to develop additive manufacturing capability for the Company s customer base. In February 2015, UCT acquired substantially all of the assets of Marchi Thermal Systems, Inc. (Marchi), a designer and manufacturer of specialty heaters, thermocouples 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. The newly acquired company, Marchi, is a leader in custom design and manufacture of heaters, sensors, and controllers. Marchi delivers flexible heating elements and thermal solutions to our customers. Heaters are a critical component in many types of semiconductor capital equipment. The Company believes heaters are increasingly critical in equipment design for the most advanced semiconductor nodes. The primary reason for this acquisition was to expand its capabilities with the Company s existing semiconductor equipment customers, increase its footprint in this market and bring about earlier engagement 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 senior secured credit facility, under which we also borrowed $46.5 million to pay off the total outstanding loan balance from the Company s existing credit facility. Following the acquisition of Marchi, the Company s cash and cash equivalents totaled approximately $77.4 million and total debt was approximately $76.2 million. See further discussion of the new borrowing arrangements in Note 5 to the Company s Condensed Consolidated Financial Statements.

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, component characterization and highly flexible global manufacturing operations with excellence in quality control and financial stability. The Company s global footprint helps the Company to drive down total manufacturing costs, reduce design-to-delivery cycle times and maintain high quality standards for the Company s customers. The Company believes that these characteristics provide global solutions for the Company s customers growing product demands. The Company ships majority of our products to U.S. registered customers with locations both in and outside

the U.S. In addition to U.S. manufacturing, 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), and subsequent to February 2, 2015, Marchi. The Company s international sales represented 28.6% and 26.7% of total sales for the three month period ended March 27, 2015 and March 28, 2014, respectively. See Note 9 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 to present fairly the statements of financial position, results of operations and cash flows 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.

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 The Company has reviewed its non-U.S. subsidiaries (of which all of its non-U.S. asset base resides in Asia) that operate in a local currency environment to determine their functional currency by examining how and in what currency each subsidiary generates cash through billings and cash receipts and how and in what currency the subsidiary expends cash through payment of its vendors and payment of its workforce. Also, these subsidiaries individual assets and liabilities that are primarily denominated in the local foreign currency are examined for their impact on the Company s cash flows. All have been determined to have the U.S. dollar as its functional currency. Foreign currency transaction gains and losses 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 routinely 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 U.S. and world economies, 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; 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; 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	
	March 27, 2015	**March 28, 2014**
Lam Research Corporation	46.7%	34.3%

Applied Materials, Inc.	28.9	25.3
ASM International	*	19.4
Total	75.6%	79.0%

* Total sales for the three month period ended March 27, 2015 is below 10%.

Two customers accounts receivable balances, Applied Materials, Inc. and Lam Research Corporation, were individually greater than 10% of accounts receivable as of March 27, 2015, and in the aggregate represented approximately 68.3% of accounts receivable. Three customers accounts receivable balances, Applied Materials, Inc., Lam Research Corporation and ASM International, were individually greater than 10% of accounts receivable as of March 28, 2014, and in the aggregate represented approximately 76.0% of accounts receivable.

Table of Contents

Fair Value of Financial Instruments The Company s financial instruments consist of cash and cash equivalents, accounts receivable, accounts payable and bank borrowings. The carrying value of cash and cash equivalents, accounts receivable and accounts payable approximates their fair value because of their short-term nature.

The accounting guidance for fair value measurements prioritizes the inputs used in measuring fair value in the following hierarchy:

Level 1 Quoted prices in active markets for identical assets or liabilities,

Level 2 Observable inputs other than the Level 1 prices for similar assets or liabilities; quoted prices in active markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of assets or liabilities,

Level 3 Unobservable inputs in which there is little or no market data, and that are significant to the fair value of the assets or liabilities.

The Company s only financial asset measured at fair value on a recurring basis is 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 $3.0 million at March 27, 2015 based on Level 1 inputs. 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.

Financial assets measured at fair value are summarized below (in thousands):

	Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs	Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs
	March 27, 2015		December 26, 2014	
	(level 1)	(level 2)	(level 1)	(level 2)
Money market fund deposits (1)	$ 3,009	$	$ 14,396	$

(1) Included in cash and cash equivalents on the condensed consolidated balance sheet. The carrying amounts approximate fair value due to the short-term maturities of the cash equivalents.

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.

Table of Contents

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):

	Three months ended	
	March 27, 2015	March 28, 2014
Beginning balance	$ 109	$ 101
Change in reserve	15	67
Warranty costs incurred in the current period	(27)	(57)
Ending balance	$ 97	$ 111

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 March 27, 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.

9

Revenue Recognition Product revenue is generally recorded upon shipment. In arrangements which 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 7 to condensed consolidated financial statements).

Comprehensive Income The Company reports by major components and as a single total, the change in its net assets during the period from non-owner sources. Comprehensive income for all periods presented was the same as net income.

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.

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 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 over the awards vesting period on a straight-line basis over a weighted average period of four years for stock options, three years for RSUs and one year for RSAs, and will be 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.

Table of Contents

Stock Options

Stock option activity for the three months ended March 27, 2015:

	Shares	Weighted Average Exercise Price		Weighted Remaining Contractual Life (years)	Aggregate Intrinsic Value (in thousands)	
Outstanding at December 26, 2014	853,551	$	8.87	1.35	$	1,798
Granted						
Exercised	(335,303)	$	6.51			
Canceled	(600)	$	14.90			
Outstanding at March 27, 2015	517,648	$	10.40	2.04	$	464,580
Options exercisable at March 27, 2015	517,648	$	10.40	2.04	$	464,580

There were no options granted by the Company during either of the three month periods ended March 27, 2015 and March 28, 2014. As of March 27, 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.

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 three months ended March 27, 2015, 39,647 vested shares were withheld to satisfy withholding tax obligations, resulting in the net issuance of 149,130 shares. As of March 27, 2015, approximately $7.0 million of stock-based compensation cost, net of estimated forfeitures, related to RSU s remains to be amortized over a weighted average period of two years. As of March 27, 2015, a total of 1,226,696 RSU s remain outstanding with an aggregate intrinsic value of $9.0 million and a weighted average remaining contractual term of 1.53 years.

Restricted Stock Awards As of March 27, 2015, a total of 47,000 RSAs remain outstanding. The total unamortized expense of the Company s unvested restricted stock awards as of March 27, 2015, was $0.1 million.

Table of Contents

The following table summarizes the Company s RSU and RSA activity for the three months March 27, 2015:

	Shares	Aggregate Intrinsic Value (in thousands)
Unvested restricted stock units and restricted stock awards at December 26, 2014	1,078,279	$ 9,673,397
Granted	547,000	
Vested	(188,777)	
Forfeited	(162,806)	
Unvested restricted stock units and restricted stock awards at March 27, 2015	1,273,696	$ 8,979,415
Vested and expected to vest restricted stock units and restricted stock awards at March 27, 2015	1,037,857	$ 7,253,070

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

	Three months ended	
	March 27, 2015	March 28, 2014
Cost of sales (1)	$ 382	$ 326
Research and development	50	71
Sales and marketing	111	132
General and administrative	(69)	490
	474	1,019
Income tax benefit	(146)	(176)
Net stock-based compensation expense	$ 328	$ 843

(1) Stock-based compensation expenses capitalized in inventory for the three month periods ended March 27, 2015 and March 28, 2014 were considered immaterial.

2. Balance Sheet Information

Inventory consisted of the following (in thousands):

	March 27 2015	December 26, 2014
Raw materials	$ 47,212	$ 45,294
Work in process	16,200	14,103
Finished goods	3,581	3,922
	66,993	63,319
Reserve for excess and obsolete	(7,081)	(6,469)
Total	$ 59,912	$ 56,850

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

	March 27, 2015	December 26, 2014
Computer equipment and software	$ 9,406	$ 9,299
Furniture and fixtures	2,645	2,582
Machinery and equipment	12,694	10,774
Leasehold improvements	15,167	12,847
	39,912	35,502
Accumulated depreciation	(25,436)	(24,661)
Total	$ 14,476	$ 10,841

3. Acquisitions

In February 2015, the Company completed the acquisition of certain of the assets and liabilities 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 s primary reason for this acquisition is to expand its capabilities with its existing customers and 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 new borrowing arrangements in Note 5 to the Notes to Condensed Consolidated Financial Statements.

The Company allocated the 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 values was recorded as goodwill. Goodwill associated with the acquisition is primarily attributable to the future technology, market presence and knowledgeable and experienced workforce. Although goodwill is not amortized for financial

accounting purposes, it is amortized for tax purposes over fifteen years. The fair values 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 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 certain tangible assets and liabilities acquired, 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 date during the measurement period. The preliminary purchase price for the acquisition is allocated as follows:

Table of Contents

Fair Market Values (in thousands)	
Inventories	$ 1,297
Property and equipment, net	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

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.

The results of operations for the Company for the first quarter of fiscal 2015 include two full months of operating activity for Marchi. For the three months ended March 27, 2015, net sales of approximately $2.1 million and operating income of approximately $0.7 million attributable to Marchi were included in the consolidated results of operations. For the three months ended March 27, 2015, results of operations included charges of $0.4 million and $0.2 million, respectively, attributable to amortization of purchased intangible assets and 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 acquisition was completed as of the beginning of the fiscal reporting periods presented. The unaudited pro forma consolidated results of operations for the three months ended March 27, 2015 and March 28, 2014 (in thousands, except per share amounts) as follows:

	Three Months Ended	
	March 27, 2015	March 28, 2014
Net sales	$ 126,894	$ 147,779
Net income	$ 1,404	$ 6,008
Basic earnings per share	$ 0.05	$ 0.20

Diluted earnings per share	$ 0.04	$ 0.19

Table of Contents

The unaudited pro forma results above include adjustments related to the purchase price allocation and financing of the acquisition, primarily to increase amortization for the identifiable intangible assets, to increase interest expense for the additional debt incurred to complete the acquisition, to reflect the related income tax effect and to adjust weighted shares issued as part of the acquisition. The unaudited pro forma results for the three months ended March 27, 2015 include acquisition related costs of $0.2 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 and Marchi 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.

4. 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):

	March 27, 2015	December 26, 2014

	Goodwill	Intangible Assets	Total	Goodwill	Intangible Assets	Total
Carrying amount	$ 74,298	$ 39,057	$ 113,355	$ 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.

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

	As of March 27, 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	$ (13,583)	$ 5,417	$ 19,000	$ (13,011)	$ 5,989	7
Tradename	1,900	(1,155)	745	1,900	(1,081)	819	6
Intellectual property/know-how	1,600	(628)	972	1,600	(571)	1,029	7
Marchi							
Customer relationships	9,900	(165)	9,735				10
Tradename	1,170	(39)	1,131				6
Intellectual property/know-how	12,300	(230)	12,070				8-12
UCT							
Tradename	8,987		8,987	8,987		8,987	*
Total	$ 54,857	$ (15,800)	$ 39,057	$ 31,487	$ (14,663)	$ 16,824	

* In addition to the Marchi and AIT tradename intangible assets of $3.1 million, the Company is also carrying a UCT tradename intangible asset of $9.0 million as a result of a previous acquisition. 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 (AIT and Marchi) and customer relationships (AIT) intangible assets 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 intangible and customer relationships (Marchi) asset on a straight-line basis with an estimated economic life of the assets ranging from 7 to 12 years. Amortization expense was approximately $1.2 million for the three months ended March 27, 2015 and March 28, 2014. Amortization expense is charged to General and Administrative. As of March 27, 2015, future estimated amortization expense is expected to be as follows (in thousands):

	Amortization Expense
2015 (remaining in year)	$ 4,064
2016	4,888
2017	3,969
2018	3,409
2019	3037
Thereafter	10,702
Total	$ 30,069

5. 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 (Revolver), maturing on July 3, 2016, and a $40.0 million term loan (Term Loan), maturing on July 3, 2016. The interest rate on the Revolver during the month of January 2015 was 3.75%.

16

On February 2, 2015, the Company entered into a new credit agreement (the Credit Agreement) by and among the Company, certain of its subsidiaries, East West Bank and Citi National Bank (collectively, the Lenders). The new credit agreement was amended in April 3, 2015 (as amended, the Credit Agreement) to modify certain term 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, 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 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 Company expects, however, that 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.

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 March 27, 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 March 27, 2015, the outstanding amounts under the Company s Term Loan and Revolving Credit Facility were $40.0 million and $36.2 million, respectively, which are gross of unamortized debt issuance costs of $0.6 million for a total debt balance of $75.6 million.

6. Income Tax

The Company s income tax provision and effective tax rate for the three month period ended March 27, 2015 was $0.5 million and 30.7% compared to $1.5 million and 17.3% for the three month period ended March 28, 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 month period ended March 27, 2015 compared to the three month period ended March 28, 2014. Our effective tax rates were lower than the statutory rates for the first quarter of fiscal years 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 March 27, 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 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 March 27, 2015, the Company had undistributed earnings of foreign subsidiaries that are indefinitely invested outside of the U.S. of approximately $64.0 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):

	Three months ended	
	March 27, 2015	**March 28 2014**
Balance as of the beginning of period	$ 356	$ 165
Increase (decrease) related to current year tax positions	18	10
Balance as of the end of period	$ 374	$ 175

Table of Contents

The Company s gross liability for unrecognized tax benefits as of March 27, 2015 and December 26, 2014 were $0.4 million and $0.2 million, respectively. Increases or decreases to interest and penalties on uncertain tax positions are included in income tax provision in the condensed consolidated statements of operations. Interest related to uncertain tax positions was immaterial for each of the three month periods ended March 27, 2015 and March 28, 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.

The Company files income tax returns in the U.S. federal jurisdiction, various states and foreign jurisdictions. The Company s 2011 through 2013 federal income tax returns are open to audit through the statute of limitations by the Internal Revenue Service. The Company s 2010 through 2013 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 $2.5 million for the three month period ended March 27, 2015.

7. 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	
	March 27 2015	March 28, 2014
Numerator:		
Net income	$ 1,173	$ 7,056
Denominator:		
Shares used in computation basic:		
Weighted average common shares outstanding	30,485	28,877
Shares used in computation diluted:		

Shares used in computing basic net income per share		30,485		28,877
Dilutive effect of common shares outstanding subject to repurchase		333		664
Dilutive effect of options outstanding		146		377
Weighted average shares used in computing diluted net income per share		30,964		29,918
Net income per share basic	$	0.04	$	0.24
Net income per share diluted	$	0.04	$	0.24

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 277,648 stock options for the quarter ended March 27, 2015 and 288,237 stock options outstanding as of March 28, 2014.

Table of Contents

8. Commitments and Contingencies

The Company had commitments to purchase inventory totaling approximately $33.9 million at March 27, 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 and the Philippines. The Company leases certain of its facilities under non-cancelable leases, which expire on various dates through 2022.

As of March 27, 2015, future minimum payments under these operating leases were as follows (in thousands):

Fiscal Year	
2015 (remaining in year)	$ 4,483
2016	5,337
2017	4,712
2018	3,573
2019	2,737
Thereafter	7,770
Total minimum lease payments	$ 28,612

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.

9. Segment and Geographic Information

The Company operates in one reportable segment 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. Multiple operating segments were aggregated into one 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. The Company s foreign operations are conducted primarily through its wholly-owned subsidiaries in China and Singapore. The Company s principal markets include North America, Asia and, to a lesser degree, Europe. Sales by geographic area represent sales to unaffiliated customers.

All information on sales by geographic area is based upon the location to which the products were shipped. The following table sets forth revenue by geographic area (in thousands):

	Three months ended	
	March 27, 2015	**March 28, 2014**
United States	$ 89,468	$ 105,805
China	11,962	17,541