Ultra Clean Holdings, Inc.
Form 10-Q
May 02, 2016
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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 25, 2016

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 27, 2016: 32,599,674

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ULTRA CLEAN HOLDINGS, INC.

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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 25, 2016	December 25, 2015
	(In thousands, except share and per share amounts)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 45,539	$ 50,103
Accounts receivable, net of allowance of $159 and $158, respectively	66,669	59,148
Inventories	81,995	72,716
Prepaid expenses and other	6,517	8,172
Total current assets	200,720	190,139
Equipment and leasehold improvements, net	17,915	17,267
Goodwill	85,248	85,248
Purchased intangibles, net	41,342	42,782
Other non-current assets	725	717
Total assets	$ 345,950	$ 336,153
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Bank borrowings	$ 13,789	$ 12,744
Accounts payable	52,951	39,660
Accrued compensation and related benefits	5,000	6,536
Deferred rent, current portion	592	584
Other current liabilities	7,372	5,187
Total current liabilities	79,704	64,711
Bank borrowings, net of current portion	59,870	62,795
Deferred tax liability	4,914	4,519
Deferred rent and other liabilities	3,037	3,185
Total liabilities	147,525	135,210

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; 32,505,755 and 32,279,429 shares issued and outstanding in 2016 and 2015, respectively	33	32
Additional paid-in capital	176,940	176,280
Common shares held in treasury, at cost, 601,944 shares in 2016 and 2015, respectively	(3,337)	(3,337)
Retained earnings	24,747	27,986
Accumulated other comprehensive income (loss)	42	(18)
Total stockholders equity	198,425	200,943
Total liabilities and stockholders equity	$ 345,950	$ 336,153

(See accompanying notes to condensed consolidated financial statements)

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ULTRA CLEAN HOLDINGS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited; in thousands, except per share data)

	Three months ended	
	March 25, 2016	**March 27, 2015**
Sales	$ 112,229	$ 125,318
Cost of goods sold	97,659	105,399
Gross profit	14,570	19,919
Operating expenses:		
Research and development	2,276	2,566
Sales and marketing	2,933	2,845
General and administrative	10,059	11,860
Total operating expenses	15,268	17,271
Income (loss) from operations	(698)	2,648
Interest and other income (expense), net	(1,091)	(956)
Income (loss) before provision for income taxes	(1,789)	1,692
Income tax provision	1,450	519
Net income (loss)	$ (3,239)	$ 1,173
Net income (loss) per share:		
Basic	$ (0.10)	$ 0.04
Diluted	$ (0.10)	$ 0.04
Shares used in computing net income (loss) per share:		
Basic	32,309	30,485
Diluted	32,309	30,964

(See accompanying notes to condensed consolidated financial statements)

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ULTRA CLEAN HOLDINGS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(Unaudited; in thousands)

	Three months ended	
	March 25, 2016	**March 27, 2015**
Net income (loss)	$ (3,239)	$ 1,173
Other comprehensive income (loss):		
Change in cumulative translation adjustment	97	
Cash flow hedges:		
Change in fair value of derivatives	(64)	
Adjustment for net loss realized and included in net income	27	
Total change in unrealized loss on derivative instruments	(37)	
Other comprehensive gain	60	
Comprehensive income (loss)	$ (3,179)	$ 1,173

(See accompanying notes to condensed consolidated financial statements)

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ULTRA CLEAN HOLDINGS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited; in thousands)

	Three months ended March 25, 2016	Three months ended March 27, 2015
Cash flows from operating activities:		
Net income (loss)	$ (3,239)	$ 1,173
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	1,397	904
Amortization of finite-lived intangibles	1,440	1,137
Amortization of debt issuance costs	38	714
Stock-based compensation	1,065	474
Change in the fair value of the contingent earn out	421	
Excess tax benefit from stock-based compensation		129
Changes in assets and liabilities, net of effects of acquisition:		
Accounts receivable	(7,479)	(7,808)
Inventories	(9,173)	(1,765)
Prepaid expenses and other	1,673	(1,088)
Deferred income taxes	393	325
Other non-current assets	(8)	(54)
Accounts payable	13,244	(6)
Accrued compensation and related benefits	(1,546)	2
Income taxes payable		(129)
Other liabilities	1,578	340
Net cash used for operating activities	(196)	(5,652)
Cash flows from investing activities:		
Acquisition of business		(29,734)
Purchases of equipment and leasehold improvements	(2,030)	(2,582)
Net cash used for investing activities	(2,030)	(32,316)
Cash flows from financing activities:		
Proceeds from bank borrowings	1,637	76,189
Proceeds from issuance of common stock		2,192
Principal payments on bank borrowings	(3,566)	(48,844)
Payments of debt issuance costs		(500)
Excess tax benefit from stock-based compensation		(129)
Employees taxes paid upon vesting of restricted stock units	(404)	(330)
Net cash provided by (used for) financing activities	(2,333)	28,578

Effect of exchange rate changes on cash and cash equivalents		(5)		
Net decrease in cash	$	(4,564)	$	(9,390)
Cash and cash equivalents at beginning of period		50,103		78,997
Cash and cash equivalents at end of period	$	45,539	$	69,607
Supplemental cash flow information:				
Income taxes paid	$	143	$	598
Income tax refunds	$	598	$	
Interest paid	$	692	$	689
Non-cash investing activities:				
Fair value of common shares issued for acquisition	$		$	13,843
Equipment and leasehold improvements purchased included in accounts payable	$	146	$	1,538

(See accompanying notes to condensed consolidated financial statements)

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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 (UCTS) and Ultra Clean Micro-Electronics Equipment (Shanghai) Co., Ltd. (UCME) were established in 2005 and 2007, respectively, to facilitate the Company s operations in China. In December 2015, UCTS merged into UCME. Ultra Clean Asia Pacific, Pte, Ltd. (Singapore) (UCAP) 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 UCT s 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 expanded 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 and equipment industry segments with similar requirements including consumer, medical and flat panel display. The Company focuses on providing specialized engineering and manufacturing solutions for these highly complex, highly configurable, limited volume 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, 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 while maintaining high quality standards for the Company s customers. The Company believes that these characteristics allow the Company to provide global solutions for its customers 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, UCTS, UCME, UCAP, Marchi and Miconex. The Company s international sales represented 43.9% and 31.8% of total sales for the three months ended March 25, 2016 and March 27, 2015, 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 25, 2015 balance sheet data were derived from its audited financial statements as of that date.

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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 U.S. dollar. Gains and losses from these translations are recognized in foreign currency translation included in accumulated other comprehensive income (AOCI) within 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 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.

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 25, 2016	**March 27, 2015**
Lam Research Corporation	56.6%	46.7%
Applied Materials, Inc.	23.1	28.9
Total	79.7%	75.6%

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 25, 2016 and December 25, 2015 and in the aggregate represented approximately 90.5% and 84.6% of accounts receivable, respectively.

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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. The following table summarizes, for assets or liabilities measured at fair value, the respective fair value and the classification by level of input within the fair value hierarchy (in thousands):

		Fair Value Measurement at Reporting Date Using		
Description	**March 25, 2016**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Other liabilities:				
Interest rate swap	$ 68	$	$ 68	$
Contingent earn-out liability	$ 1,252	$	$	$ 1,252

		Fair Value Measurement at Reporting Date Using		
Description	**December 25, 2015**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Cash and cash equivalents:				

Money market fund deposits	$ 640	$ 640	$	$
Other liabilities:				
Interest rate swap	$ 23	$	$ 23	$
Contingent earn-out liability	$ 831	$	$	$ 831

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.

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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 warranty 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. Determination of the warranty reserve 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 recognize additional cost of sales may be required in future periods. The warranty reserve is included in other current liabilities on the condensed consolidated balance sheet.

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 federal, state, and one of its Singapore subsidiary s deferred tax amounts as of March 25, 2016. 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. In arrangements that 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 performs on-going credit evaluations of customers and generally does not require collateral from 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, and therefore, has one reportable 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, 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 straight-line 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.

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Stock Options

Stock option activity for the three months ended March 25, 2016:

	Shares	Weighted Average Exercise Price	Weighted Remaining Contractual Life (years)	Aggregate Intrinsic Value (in thousands)
Outstanding at December 25, 2015	315,648	$ 10.02	2.06	$ 216
Granted				
Exercised				
Canceled	(2,220)	$ 8.96		
Outstanding at March 25, 2016	313,428	$ 10.03	1.83	$ 180
Options exercisable at March 25, 2016	313,428	$ 10.03	1.83	$ 180

There were no options granted by the Company during either of the three month periods ended March 25, 2016 and March 27, 2015. As of March 25, 2016, 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 25, 2016, the Company granted 438,500 RSUs, with a weighted average fair value of $5.31 per share, and granted 205,500 performance stock units with a weighted average fair value of $5.31 per share. During the three months ended March 25, 2016, 78,517 vested shares were withheld to satisfy withholding tax obligations, resulting in the net issuance of 226,326 shares. As of March 25, 2016, approximately $7.1 million of stock-based compensation cost, net of estimated forfeitures, related to RSUs remains to be amortized over a weighted average period of two years. As of March 25, 2016, a total of 1,523,556 RSUs remain outstanding with an aggregate intrinsic value of $7.7 million and a weighted average remaining contractual term of 2.16 years.

Restricted Stock Awards As of March 25, 2016, a total of 48,000 RSAs were outstanding. The total unamortized expense of the Company s unvested restricted stock awards as of March 25, 2016, was $0.1 million.

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The following table summarizes the Company s RSU and RSA activity for the three months ended March 25, 2016:

	Shares	Aggregate Fair Value (in thousands)
Unvested restricted stock units and restricted stock awards at December 25, 2015	1,267,942	$ 6,563
Granted	644,000	
Vested	(304,843)	
Forfeited	(35,543)	
Unvested restricted stock units and restricted stock awards at March 25, 2016	1,571,556	$ 7,984
Vested and expected to vest restricted stock units and restricted stock awards at March 25, 2016	1,267,799	$ 6,440

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 25, 2016	March 27, 2015
Cost of sales (1)	$ 276	$ 382
Research and development	61	50
Sales and marketing	77	111
General and administrative	651	(69)
	1,065	474
Income tax benefit		(146)
Net stock-based compensation expense	$ 1,065	$ 328

(1) Stock-based compensation expenses capitalized in inventory for the three month periods ended March 25, 2016 and March 27, 2015 were not significant.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) amended the existing accounting standards for revenue recognition. In August 2015, the FASB delayed the effective date of the amended accounting standard for revenue recognition by one year. The FASB also agreed to allow entities to choose to adopt the standard as of the original effective date. As such, the updated standard will be effective for us in the first quarter of 2018, with the option to adopt it in the first quarter of 2017. The Company is still evaluating the effect that the updated standard will have on the consolidated financial statements and related disclosures.

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 or the retail inventory method but applies to all other inventory including those measured using first-in, first-out 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.

In November 2015, the FASB issued authoritative guidance on income taxes, which simplifies the presentation of deferred income taxes by requiring deferred tax assets and liabilities be classified as noncurrent on the balance sheet. The updated standard is effective for us beginning on January 1, 2017 with early application permitted as of the beginning of any interim or annual reporting period. The Company is currently evaluating the effect of this new guidance on the Company s consolidated financial statements.

In February 2016, the FASB issued new guidance related to how an entity should recognize lease assets and lease liabilities. The guidance specifies that an entity who is a lessee under lease agreements should recognize lease assets and lease liabilities for those leases classified as operating leases under previous FASB guidance. The guidance is effective beginning in the first quarter of 2019. Early adoption is permitted. In transition, lessees and lessors are required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. The Company is evaluating the impact of adopting this guidance on the Company s consolidated financial statements.

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In March 2016, the FASB issued new guidance which involves several aspects of the accounting for share-based payment transactions including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. Under the new standard, income tax benefits and deficiencies are to be recognized as income tax expense or benefit in the income statement and the tax effects of exercised or vested awards should be treated as discrete items in the reporting period in which they occur. An entity should also recognize excess tax benefits regardless of whether the benefit reduces taxes payable in the current period. Excess tax benefits should be classified along with other income tax cash flows as an operating activity. In regards to forfeitures, the entity may make an entity-wide accounting policy election to either estimate the number of awards that are expected to vest or account for forfeitures when they occur. The guidance is effective for fiscal years beginning after December 15, 2016 including interim periods within that reporting period, however early adoption is permitted. The Company is currently evaluating the guidance to determine the Company s adoption method and the effect it will have on the Company s consolidated financial statements.

2. Financial Instruments

Cash Equivalents

As of December 25, 2015, the Company had 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. The carrying value and fair value of these money market funds as of December 25, 2015 was $0.6 million, based on Level 1 inputs. There were no money market funds as of March 25, 2015.

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 1 of the Company s Condensed Consolidated Financial Statements as the valuation inputs are based on quoted prices and market observable data of similar instruments. The Company does not use derivatives for speculative or trading purposes.

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 0.44%, as of March 25, 2016. This interest rate swap effectively locks in a fixed interest rate of 3.74% on $18.7 million of the $35.0 million term loan as of March 25, 2016, 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 (expense), net. As of March 25, 2016, the effective portion of the Company s cash flow hedge before tax effect was $64,000, of which $53,700 is expected to be reclassified from AOCI into earnings within the next 12 months.

Non-Designated Derivatives

Miconex interest swap to convert the variable interest rates on Miconex debt to fixed rates with a total notional amount of $0.4 million is not designated as hedging instruments. The Company recognizes gains and losses on this contract, as well any related costs in interest and other income (expense), net.

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 March 25, 2016 and December 25, 2015.

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	Balance Sheet Location	March 25, 2016 Fair Value of Derivatives Designated as Hedge Instrument	Fair Value of Derivatives Not Designated as Hedge Instrument	Total Fair Value
Derivative liabilities:				
Level 2:				
Interest rate swap	Deferred rent and other liabilities	$ 57	$ 11	$ 68

	Balance Sheet Location	25-Dec-15 Fair Value of Derivatives Designated as Hedge Instrument	Fair Value of Derivatives Not Designated as Hedge Instrument	Total Fair Value
Derivative liabilities:				
Level 2:				
Interest rate swap	Deferred rent and other liabilities	$ 23	$ 10	$ 33

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 March 25, 2016	March 27, 2015
Derivatives in Cash Flow Hedging Relationship		
Interest rate swap	$ (64)	$

	Income Statement Location	Gains Reclassified from AOCI into Income (Effective Portion) Three Months Ended March 25, 2016	March 27, 2015
Derivatives in Cash Flow Hedging Relationship			

Interest rate swap	Interest and other income (expense), net	$ 27	$

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 months ended March 25, 2016 and March 27, 2015.

The effect of derivative instruments not designated as hedging instruments on income for the three months ended March 25, 2016 and March 27, 2015 is not significant to the financial statements.

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3. Balance Sheet Information

Inventories consisted of the following (in thousands):

	March 25, 2016	December 25, 2015
Raw materials	$ 62,282	$ 57,321
Work in process	21,762	17,954
Finished goods	5,163	4,561
	89,207	79,836
Reserve for excess and obsolete	(7,212)	(7,120)
Total	$ 81,995	$ 72,716

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

	March 25, 2016	December 25, 2015
Computer equipment and software	$ 10,898	$ 10,308
Furniture and fixtures	3,187	3,201
Machinery and equipment	16,424	16,253
Leasehold improvements	17,432	16,119
	47,941	45,881
Accumulated depreciation	(30,026)	(28,614)
Total	$ 17,915	$ 17,267

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 expanded the Company s capabilities with existing customers. Pursuant to the purchase agreement, the Company paid $15.6 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 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 $20.7 million, which includes the cash payment of $15.6 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 Consolidated Financial Statements. During the first quarter of fiscal year 2016, the Company reassessed the fair value of the earn-out payments, increasing the fair value from $0.8 million as of December 25, 2015 to $1.2 million as of March 25, 2016. The increase of $0.4 million was recorded as other expense in the condensed consolidated statements of operations.

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.

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The primary areas of the preliminary purchase price allocation of Miconex yet to be finalized relate to the fair value of income and 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. 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	10,950
Purchased intangible assets	8,800
Total assets acquired	30,090
Bank borrowings	(3,027)
Accounts payable	(3,509)
Accrued compensation and related benefits	(432)
Other current liabilities	(576)
Deferred tax liability	(1,856)
Other liabilities	(24)
Total liabilities assumed	(9,424)
Purchase price allocated	$ 20,666

	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.

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 purchase price of Marchi to the tangible assets, liabilities and identifiable intangible assets acquired, based on their calculated 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 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 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,

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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 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 following unaudited pro forma consolidated results of operations assume the Marchi and Miconex acquisitions were completed as of the beginning of 2015 (in thousands, except per share amounts):

	Three Months Ended March 27, 2015
Net sales	$ 134,964
Net income	$ 1,971
Basic earnings per share	$ 0.06
Diluted earnings per share	$ 0.06

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 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, 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 purchase 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. 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.

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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 25, 2016			December 25, 2015		
	Goodwill	Intangible Assets	Total	Goodwill	Intangible Assets	Total
Carrying amount	$ 85,248	$ 41,342	$ 126,590	$ 85,248	$ 42,782	$ 128,030

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 25, 2016			As of December 25, 2015			
	Gross Carrying Amount	Accumulated Amortization	Carrying Value	Gross Carrying Amount	Accumulated Amortization	Carrying Value	Useful Life
AIT							
Customer relationships	$ 19,000	$ (15,738)	$ 3,262	$ 19,000	$ (15,298)	$ 3,702	7
Tradename	1,900	(1,900)		1,900	(1,900)		6
Intellectual property/know-how	1,600	(857)	743	1,600	(800)	800	7
Marchi							
Customer relationships	9,900	(1,155)	8,745	9,900	(907)	8,993	10
Tradename	1,170	(274)	896	1,170	(217)	953	6
Intellectual property/know-how	12,300	(1,609)	10,691	12,300	(1,264)	11,036	8-12
Miconex							

Customer relationships	8,800	(782)	8,018	8,800	(489)	8,311	7.5
UCT							
Tradename	8,987		8,987	8,987		8,987	*
Total	$ 63,657	$ (22,315)	$ 41,342	$ 63,657	$ (20,875)	$ 42,782	

* 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 $1.4 million and $1.2 million for the three months ended March 25, 2016 and March 27, 2015, respectively. Amortization expense is charged to general and administrative. As of March 25, 2016, future estimated amortization expense is expected to be as follows (in thousands):

	Amortization Expense
2016 (remaining in year)	$ 4,318
2017	4,924
2018	4,582
2019	4,210
2020	3,682
Thereafter	10,639
Total	$ 32,355

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. In addition, the Company expensed the unamortized debt issuance costs relating to the prior loan agreement 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 March 25, 2016, the interest rates on the outstanding New Term Loan and New Revolving Credit facility were 3.19% (2.75% applicable margin and 0.44% LIBOR) and 3.5% 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 (which amount decreases based on prorated quarterly principal payments over the remaining period of the New Term Loan) 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 0.44%, as of March 25, 2016. This interest rate swap effectively locks in a fixed interest rate of 3.74% on $18.7 million of the $35.0 million term loan balance outstanding as of March 25, 2016.

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 3.50 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. In December 2015, the Credit Agreement was amended to add a covenant requiring the Company to maintain a cash balance of $35.0 million at the end of each quarter. The Company was in compliance with all covenants for the quarter ended March 25, 2016.

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 March 25, 2016, the outstanding amounts under the New Term Loan and New Revolving Credit Facility were $35.0 million and $36.2 million, respectively, which are gross of unamortized debt issuance costs of $0.4 million for a total net debt balance of $70.8 million. In addition to the New Term Loan and New Revolving loan, the Company has $2.9 million of bank debt under a credit facility in the Czech Republic, with an interest rate of 1.3% and a variable rate based on the Euro Interbank Offered Rate and due dates from 2016 to 2020. As of March 25, 2016, our total bank debt was $73.7 million.

7. Income Tax

The Company s income tax provision and effective tax rate for the three month period ended March 25, 2016 were $1.4 million and (80.8)%, respectively compared to $0.5 million and 30.7% respectively for the three month period ended March 27, 2015. 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 in jurisdictions with full federal and state valuation allowances for the three period ended March 25, 2016 compared to the impact of losses in jurisdictions with full state valuation allowances for the three month period ended March 27, 2015. Our effective tax rate was higher than the statutory rate for the first three months of 2016 primarily due to the impact of loss in jurisdictions with a full federal and state valuation allowances. Our effective tax rate was lower than the statutory rates for the first three months of 2015 primarily due to the geographic distribution of our world-wide earnings in foreign jurisdictions with lower tax rates.

Company management continuously evaluates the need for a valuation allowance and, as of March 25, 2016, concluded that a full valuation allowance on its federal and state deferred tax assets as well as the deferred tax assets of one its Singapore subsidiaries was still appropriate.

The Company earns a significant amount of its operating income outside the United States, almost all of it is 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 any other funds to the U.S., except for a portion of current year earnings from one of our Singapore subsidiaries. The Company expects 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 2016, 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 March 25, 2016, the Company had undistributed earnings of foreign subsidiaries that are indefinitely invested outside of the U.S. of approximately $71.4 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 25, 2016	March 27, 2015
Balance as of the beginning of period	$ 337	$ 356
Increase (decrease) related to current year tax	2	18
Balance as of the end of period	$ 339	$ 374

The Company s gross liability for unrecognized tax benefits as of March 25, 2016 and December 25, 2015 was $0.3 million and $0.4 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 considered to be de minimis for each of the three month period ended March 25, 2016 and March 27, 2015. 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 2012 through 2014 federal income tax returns are open to audit through the statute of limitations by the Internal Revenue Service. The Company s 2011 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.

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.

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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 25, 2016	Three months ended March 27, 2015
Numerator:		
Net income (loss)	$ (3,239)	$ 1,173
Denominator:		
Shares used in computation basic:		
Weighted average common shares outstanding	32,309	30,485
Shares used in computation diluted:		
Shares used in computing basic net income (loss) per share	32,309	30,485
Dilutive effect of common shares outstanding subject to repurchase		333
Dilutive effect of options outstanding		146
Weighted average shares used in computing diluted net income (loss) per share	32,309	30,964
Net income (loss) per share basic	$ (0.10)	$ 0.04
Net income (loss) per share diluted	$ (0.10)	$ 0.04

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 196,286 for the three month period ended March 25, 2016 and 277,648 for the three month period ended March 27, 2015. For the three months period ended March 25, 2016, all potentially dilutive securities outstanding were considered anti-dilutive, and therefore the calculation of basic and diluted net loss per share was the same.

9. Commitments and Contingencies

The Company had commitments to purchase inventory totaling approximately $44.1 million at March 25, 2016.

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 the Czech Republic. The Company leases certain of its facilities under non-cancelable leases, which expire on various dates through 2022.

As of March 25, 2016, future minimum payments under these operating leases were as follows (in thousands):

Fiscal Year	
2016 (remaining in year)	$ 5,043
2017	5,857
2018	4,525
2019	3,557
2020	3,362

Thereafter	5,361
Total minimum lease payments	$ 27,705

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 the Czech Republic. The Company s principal markets include North America, Asia and Europe.

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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	
	March 25, 2016	March 27, 2015
United States	$ 65,839	$ 89,468
China	3,447	11,962
Singapore	32,684	18,233
Austria	8,502	
Other	1,757	5,655
	$ 112,229	$ 125,318

At March 25, 2016, approximately $8.5 million and $1.8 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 March 27, 2015, approximately $8.5 million of the Company s net long-lived assets were located in Asia, and the remaining balances were located in the United States.

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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 9, 2016. 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 9, 2016. 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 help 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. 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 combine our expertise in design, 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, and 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., American Integration Technologies LLC (AIT), Ultra Clean

Micro-Electronics Equipment (Shanghai) Co., Ltd. (UCME), Ultra Clean Asia Pacific, Pte Ltd. (Singapore), Marchi and Miconex. In December 2015, Ultra Clean Technology (Shanghai) Co., Ltd. was merged into UCME.

In February 2015, we reached an agreement with Intuitive Surgical (ISI) on the insourcing of manufacturing for its 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. Included in our sales for the first quarter of 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 March 25, 2016 were $112.2 million, a decrease of $13.1 million, or 10.4%, from the comparable quarter of 2015. Gross profit for the three months ended March 25, 2016 decreased $5.3 million to $14.6 million, or 13.0% of sales, from $19.9 million, or 15.9% of sales, for the three months ended March 27, 2015. Total operating expenses for the three months ended March 25, 2016, were $15.3 million, or 13.6% of sales, compared to $17.3 million, or 13.8% of sales, for the three months ended March 27, 2015. We had net loss of $3.2 million for the three months ended March 25, 2016, compared to net income of $1.2 million for the three months ended March 27, 2015.

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We had significant sales to two customers for the three months ended March 25, 2016 and March 27, 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	
	March 25, 2016	**March 27, 2015**
Sales	100.0%	100.0%
Cost of goods sold	87.0%	84.1%
Gross profit	13.0%	15.9%
Operating expenses:		
Research and development	2.0%	2.0%
Sales and marketing	2.6%	2.2%
General and administrative	9.0%	9.5%
Total operating expenses	13.6%	13.7%
Income from operations	(0.6)%	2.2%
Interest and other income (expense), net	(1.0)%	(0.8)%
Income before provision for income taxes	(1.6)%	1.4%
Income tax provision	1.3%	0.4%
Net income	(2.9)%	1.0%

Sales

Sales for the three months ended March 25, 2016 were $112.2 million, a decrease of $13.1 million, or 10.4%, from $125.3 million in the comparable quarter of 2015. The decrease in overall sales in the first quarter of 2016 compared to the first quarter of 2015 is primarily due to a decrease in demand from semiconductor customers and insourcing transitions of significant customers during 2015, partially offset by sales generated from Marchi and Miconex, which we acquired in 2015. On a geographic basis, sales in the U.S. decreased by $22.5 million to $63.0 million, or 56.1% of sales, for the three months ended March 25, 2016 as compared to $85.5 million, or 68.2% of sales for the same period of 2015. Foreign sales increased by $9.4 million to $49.2 million, or 43.9% of sales, for the three months ended March 25, 2016 as compared to $39.8 million, or 31.8% of sales, for the same period of 2015 due in part to the acquisition of Miconex. We expect sales to be higher in the second quarter of fiscal 2016 as compared to the first quarter of fiscal 2016 due to increasing overall semiconductor customer demand.

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 March 25, 2016 decreased $5.3 million to $14.6 million, or 13.0% of sales, from $19.9 million, or 15.9% of sales, for the three months ended March 27, 2015. The decrease in gross profit and gross margin in the first quarter of 2016 is due to lower volume of products shipped as well as higher direct labor costs and higher material costs resulting from changes in product mix when compared to the same quarter in the prior year. We expect gross profit to be higher in the second quarter of 2016 compared to the first quarter of 2016 due to higher 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 March 25, 2016 decreased $0.3 million, or 11.3%, to $2.3 million, or 2.0% of sales, compared to $2.6 million, or 2.0% of sales in the comparable period in 2015. The decreases in absolute dollars for research and development expenses when comparing the three month period ended March 25, 2016 with the comparable period in 2015 was due primarily to lower headcount and related payroll expense.

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 March 25, 2016 increased $0.1 million, or 3.1%, to $2.9 million, or 2.6% of sales, compared to $2.8 million, or 2.3% of sales, in the comparable period of 2015. The increase in sales and marketing expense for the three month periods ended March 25, 2016 compared to the same period in the prior year is primarily due to an increase in headcount and related payroll expenses.

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 decreased approximately $1.8 million, or 15.2%, for the three months ended March 25, 2016, to $10.1 million, or 9.0% of sales, compared with $11.9 million, or 9.5% of sales, in the comparable period of 2015. The decrease in absolute dollars when comparing the three months ended March 25, 2016 with the comparable period in 2015 is primarily due to a one-time severance payment made in the first quarter of 2015 to our former Chief Executive Officer of $2.4 million, partially offset by $0.5 million of higher amortization of finite-lived intangibles obtained in conjunction with the acquisitions of Miconex and Marchi.

Interest and Other Income (Expense), net

Interest and other income (expense), net, for the three months ended March 25, 2016, was $(1.1) million compared to $(1.0) million in the comparable period of 2015. The increase in net expense for the three month period ended March 25, 2016 compared to the same period in the prior year is primarily due to an increase in interest expense resulting from a higher interest rate applied to our debt during the period.

Income Tax Provision

Our tax expense and effective tax rate for the three months ended March 25, 2016 and March 27, 2015 were $1.4 million and (80.8)%, and $0.5 million and 30.7%, respectively. 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 in jurisdictions with full federal and state valuation allowances for the three period ended March 25, 2016 compared to the impact of losses in jurisdictions with full state valuation allowances for the three month period ended March 27, 2015. Company management continuously evaluates the need for a valuation allowance on its deferred tax assets and, as of March 25, 2016, concluded that a full valuation allowance on its federal, state, and one of its Singapore subsidiaries was still appropriate.

For the three months ended March 25, 2016, 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. For the three months ended March 25, 2016, we also determined that a portion of the current year earnings of one of our Singapore subsidiaries will be remitted in the future to the US. 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 March 25, 2016, we had cash of $45.5 million compared to $50.1 million as of December 25, 2015. 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 March 25, 2016.

For the three months ended March 25, 2016, we used cash in operating activities of $0.2 million compared to cash used in operating activities of $5.7 million for the comparable period of 2015. Operating cash flows in the three months ended March 25, 2016 included $4.4 million of non-cash activity comprised of depreciation, amortization of intangibles, stock compensation expense, amortization of debt issuance costs and a change in fair value of the contingent earn out payable to the former owners of Miconex. Cash generated from operating activities included decreases in deferred income taxes and prepaid expenses and other of $0.4 million and $1.7 million, respectively, and increases in accounts payable and other liabilities of $13.2 million and $1.6 million, respectively. These increases in cash flow were offset by increases in accounts receivable and inventory of $7.5 million and $9.2 million, respectively, and a decrease in accrued compensation and related benefits of $1.5 million. 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.

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Net cash used in investing activities for the three months ended March 25, 2016 was approximately $2.0 million, primarily attributable to the expansion of our Czech Republic facility. Net cash used in investing activities of $32.3 million for the three months ended March 27, 2015 consisted of cash paid in connection with the acquisition of Marchi of $29.7 and capital expenditures of $2.6 million primarily attributable to the expansion of our Singapore facility.

Net cash used in financing activities for the three months ended March 25, 2016 was $2.3 million compared to net cash provided from financing activities of $28.6 million for the comparable period of 2015. For the three months ended March 25, 2016, our net cash used in financing activities was due primarily to principal payments on borrowings of $3.6 million offset by Miconex bank borrowing proceeds of $1.6 million. For the three months ended March 27, 2015, our net cash provided in financing activities primarily resulted from the cash proceeds from the new term and revolver loans obtained on February 2, 2015 of $76.2 million and proceeds from the issuance of common stock related to our employee stock plans of $2.2 million. These increases were offset primarily by the $48.8 million payoff on the previous credit facility and payment of $0.5 million of debt issuance costs related to the new credit facility.

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 and profitability, 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 March 25, 2016, approximately $45.2 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.

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 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. In addition, we expensed the unamortized debt issuance costs relating to the prior loan agreement 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 2, 2015. The Credit Agreement includes customary representations, warranties, covenants and events of default. We and certain of our subsidiaries agreed to secure all of our and their respective obligations under the Credit Agreement by granting a first priority lien in substantially all of our and 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 March 25, 2016, the interest rates on the outstanding new Term Loan and new Revolving Credit facility were 3.19% (2.75% applicable margin and 0.44% LIBOR) and 3.5% 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 (which amount decreases based on prorated quarterly principal payment over the remaining period of the Term Loan) 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 0.44% as of March 25, 2016. This interest rate swap effectively locks in a fixed interest rate of 3.74% on $18.7 million of the $35.0 million term loan balance outstanding as of March 25, 2016.

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 first quarter of fiscal 2015 and a consolidated leverage ratio (as defined in the Credit Agreement) no greater than 3.50 to 1.00 starting with the first quarter of fiscal 2015. The Credit Agreement also includes other customary affirmative and negative covenants. In December 2015, the Credit Agreement was amended to include a provision requiring the Company to maintain a cash balance of $35.0 million every quarter end. We are in compliance with all covenants for the quarter ended March 25, 2016.

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 25, 2016, we have outstanding amounts under the New Term Loan and New Revolving Credit Facility of $35.0 million and $36.2 million, respectively, which are gross of unamortized debt issuance costs of $0.4 million, for a total net debt balance with this credit facility of $70.8 million. In addition, we have $2.9 million of bank debt under a credit facility in the Czech Republic, with interest rate of 1.3% and a variable based Euro Interbank Offered Rate and due dates from 2016 to 2020. As of March 25, 2016, our total bank debt was $73.7 million.

Capital Expenditures

Capital expenditures were $2.0 million in the three months ended March 25, 2016 and were primarily attributable to the expansion of our Czech Republic facility. The Company s anticipated capital expenditures for the remainder of 2016 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 March 25, 2016 (in thousands):

	Total	Less than 1 Year	1-3 Years	3-5 Years	More Than 5 Years
Operating leases (1)	$ 27,705	$ 5,043	$ 10,382	$ 6,919	$ 5,361
Borrowing arrangements (2)	74,092	11,157	23,641	39,294	
PO commitments	44,090	44,090			
Total	$ 145,887	$ 60,290	$ 34,023	$ 46,213	$ 5,361

(1) Operating lease obligations reflects (a) the leases for our headquarters and manufacturing facilities in Hayward, California that expire in 2020 thru 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 2016 thru 2019; (d) the leases for manufacturing facilities in Austin, Texas that expire in 2021; (e) 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 (f) the leases for our manufacturing facilities in the Czech Republic that expires in 2019. 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 of $71.2 million gross of unamortized debt issuance costs, under which $35.0 million is outstanding under the New Term Loan and approximately $36.2 million under the New Revolving Credit Facility as of March 25, 2016 and of our bank debt of $2.9 million held by 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.

There have been no material changes to our critical accounting policies, significant judgments and estimates disclosed in our Annual Report on Form 10-K subsequent to December 25, 2015. For further information on our critical and other significant accounting policies and estimates, see Part II, Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations of our Annual Report on Form 10-K for the fiscal year ended December 25, 2015, filed with the SEC.

ITEM 3. Quantitative and Qualitative Disclosures About Market Risk

There were no significant changes to our quantitative and qualitative disclosures about market risk during the first three months of fiscal 2016. Refer to Part II, Item 7A. Quantitative and Qualitative Disclosures about Market Risk included in our Annual Report on Form 10-K for our fiscal year ended December 25, 2015 for a more complete discussion of the marke