

ULTRA CLEAN HOLDINGS INC

Form 10-K

March 13, 2013

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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**Form 10-K**

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the fiscal year ended December 28, 2012

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)

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**Delaware**  
(State or other jurisdiction of

**61-1430858**  
(IRS Employer

incorporation or organization)

Identification No.)

**26462 Corporate Avenue**

**Hayward, California**  
(Address of principal executive offices)

**94545**  
(Zip Code)

**Registrant's telephone number, including area code:**

**(510) 576-4400**

**Securities registered pursuant to Section 12(b) of the Act:**

<b>Title of Each Class</b>	<b>Name of Each Exchange on Which Registered</b>
Common Stock, \$0.001 par value	The NASDAQ Global Market LLC

**Securities registered pursuant to Section 12(g) of the Act:**

**None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 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  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

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 by Rule 12b-2 of the Act). Yes  No

The aggregate market value of the voting and non-voting stock held by non-affiliates of the Registrant, based on the closing sale price of the Registrant's common stock on June 29, 2012 as reported on the NASDAQ Global Market, was approximately \$150.5 million. Shares of common stock held by each executive officer and director and by each person who may be deemed to be an affiliate of the Registrant have been excluded from this computation. The determination of affiliate status for this purpose is not necessarily a conclusive determination for other purposes.

Number of shares of the registrant's common stock outstanding as of February 28, 2013: 28,155,408

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the registrant's definitive proxy statement to be delivered to stockholders in connection with the 2012 annual meeting of stockholders are incorporated by reference in Part III of this Form 10-K where indicated. Such proxy statement will be filed with the Securities and Exchange Commission within 120 days of the registrant's fiscal year ended December 28, 2012.

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**PART I**

*This Annual Report on Form 10-K contains forward-looking statements regarding future events and our future results. These statements are based on current expectations, estimates, forecasts, and projections about the industries in which we operate and the beliefs and assumptions of our management. Words such as expects, anticipates, targets, goals, projects, intends, plans, believes, seeks, estimates, continues, may, variations of such words, and similar expressions are intended to identify such forward-looking statements. These forward-looking statements include, but are not limited to, statements concerning the following: projections of our financial performance, our anticipated growth and trends in our business, levels of capital expenditures, the adequacy of our capital resources to fund operations and growth, our ability to compete effectively with our competitors, our strategies and ability to protect our intellectual property, future acquisitions, customer demand, our manufacturing and procurement process, employee matters, supplier relations, foreign operations (including our operations in China and Singapore), the legal and regulatory backdrop (including environmental regulation), our exposure to market risks and other characterizations of future events or circumstances described in this Annual Report. Readers are cautioned that these forward-looking statements are only predictions and are subject to risks, uncertainties, and assumptions that are difficult to predict, including those identified below, under Risk Factors, and elsewhere herein. Therefore, actual results may differ materially and adversely from those expressed in any forward-looking statements. We undertake no obligation to revise or update any forward-looking statements for any reason.*

**Item 1. Business**  
**Overview**

We are a leading developer and supplier of critical subsystems, primarily for the semiconductor capital equipment industry. We also leverage the specialized skill sets required to support semiconductor capital equipment to serve the technologically similar markets in the flat panel, medical, energy and research industries, collectively referred to as Other Addressed Industries. We develop, design, prototype, engineer, manufacture and test subsystems which are highly specialized and tailored to specific steps in the semiconductor manufacturing process as well as the manufacturing processes in Other Addressed Industries. Our revenue is derived from the sale of gas delivery systems and other critical subsystems including chemical mechanical planarization (CMP) subsystems, chemical delivery modules, top-plate assemblies, frame assemblies, process modules and other high level assemblies.

Our customers are primarily original equipment manufacturers (OEMs) in the industries we support. We provide our customers complete subsystem solutions that combine our expertise in design, test, component characterization and highly flexible manufacturing operations with quality control and financial stability. This combination helps us to drive down total manufacturing costs, reduce design-to-delivery cycle times and maintain high quality standards for our customers. We believe these characteristics, as well as our standing as a leading supplier of gas delivery systems and other critical subsystems, place us in a strong position to benefit from the demand for subsystem outsourcing.

We had sales of \$403.4 million, \$452.6 million and \$443.1 million for fiscal years 2012, 2011 and 2010, respectively. Historically, our largest customers have been Applied Materials, Inc., Intuitive Surgical, Inc., Lam Research Corporation, and Novellus, Inc. During 2012 Novellus Systems and Lam Research, agreed to combine businesses. Also, In November 2011, Applied Materials, Inc. completed the acquisition of Varian Semiconductor Equipment Associates, Inc., one of our customers. In addition, in 2012, we terminated our agreement for manufacturing services to FEI Company but continued to provide services for pay for up to six months subsequent to termination of the agreement for a transition fee.

On July 3, 2012, we completed the acquisition of American Integration Technologies LLC (AIT), a supplier of critical subsystems to the semiconductor capital equipment, medical, energy, industrial and aerospace industries, for approximately \$75.3 million in cash and 4.5 million shares of our newly issued common stock

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valued at \$29.6 million for a total purchase price of \$104.9 million. We financed the cash portion of the merger, and repaid our existing indebtedness, by borrowing a total of \$79.8 million under a new senior secured credit facility, of which \$40.0 million represents borrowings under a term loan and \$39.8 million represents borrowings under a revolving credit facility.

To date, we have shipped substantially all of our products to U.S. registered customers to locations both in the U.S. and outside the U.S. In addition, we manufacture product outside the U.S. in our Asian facilities which are destined to international operations of U.S. registrants. We conduct our operating activities primarily through our wholly owned subsidiaries, Ultra Clean Technology Systems and Service, Inc., AIT LLC, Ultra Clean Technology (Shanghai) Co., Ltd., Ultra Clean Micro-Electronics Equipment (Shanghai) Co., Ltd. and Ultra Clean Asia Pacific, Pte Ltd. (Singapore). Our international sales represented 22.2%, 21.1% and 9.8% of sales for fiscal years 2012, 2011 and 2010, respectively. See Note 10 to our Consolidated Financial Statements for further information about our geographic areas.

Ultra Clean Holdings, Inc. (Ultra Clean) 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 Ultra Clean. Ultra Clean became a publicly traded company in March 2004. In June 2006, we completed the acquisition of Sieger Engineering, Inc. to better enhance our position as a subsystem supplier to the semiconductor, research, flat panel, energy and medical equipment industries. Ultra Clean Technology (Shanghai) Co., Ltd and Ultra Clean Micro-Electronics Equipment (Shanghai) Co., Ltd. were established in 2005 and 2007, respectively, to facilitate our operations in China. Ultra Clean Asia Pacific, Pte, Ltd. (Singapore), was established in fiscal year 2008 to facilitate our operations in Singapore. In July 2012, we acquired AIT LLC to immediately add to our customer base in the semiconductor and medical spaces and to provide additional manufacturing capabilities. We operate in one reportable segment. See Note 10 to our Consolidated Financial Statements.

### ***Our Solution***

We are a global leader in the design, engineering, and manufacture of critical tools, modules and subsystems for the semiconductor capital equipment, medical, industrial and Other Addressed Industries. Our focus is on providing specialized engineering and manufacturing solutions for a growing number of applications. These wide-ranging solutions include semiconductor OEM systems and subsystems, precision robotic solutions, electro-mechanical modules, power distribution, controls, industrial systems, flat panel displays, energy and research applications, LED capital equipment and other higher level, systems. Our products enable our OEM customers to realize lower manufacturing costs and reduced design-to-delivery cycle times while maintaining quality standards. We offer our customers:

*A vertically integrated outsourced solution for complex highly configurable systems.* We provide our OEM customers a complete outsourced solution for the development, design, component sourcing, prototyping, engineering, turnkey manufacturing and testing of advanced systems. We combine highly specialized engineering and manufacturing capabilities to produce high performance products that are customized to meet the needs of our customers, as well as their respective end users. We manage global supply chain logistics in an effort to reduce the overall number of suppliers and inventory levels that our customers would otherwise be required to manage. We also believe we are often in a position to negotiate reduced component prices due to our large volume orders.

*Improved design-to-delivery cycle times.* Our strong relationships with our customers and intimate familiarity with their products, requirements and the ever changing needs of their customers helps us reduce design-to-delivery cycle times. We have optimized our supply chain management, design and manufacturing coordination and controls to respond rapidly to order requests enabling us to decrease design-to-delivery cycle times for our customers.

*Component neutral design and manufacturing.* We do not manufacture any of the components within our systems ourselves. Our component neutral position enables us to recommend components on the

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basis of technology, performance and cost and to optimize our customers' overall designs based on these criteria. Furthermore, our neutral approach allows us to maintain close relationships with a wide range of component suppliers.

*Component testing capabilities.* We utilize our engineering expertise to test and characterize key components and subsystems. We have made significant investments in advanced analytical and automated test equipment to test and qualify key components. We can perform diagnostic tests, design verification and failure analysis for customers and suppliers. Our analytical and testing capabilities enable us to evaluate multiple supplier component technologies and provide customers with a wide range of appropriate component and design choices for their subsystems.

*Increased integration with OEMs through local presence.* Our local presence in close proximity to the facilities of most of our OEM customers enables us to remain closely integrated with their design, development and implementation teams. This level of integration enables us to respond quickly and efficiently to customer changes and requests.

*Precision machining capabilities.* We manufacture high quality, precision machined parts using state of the art equipment capable of efficiently providing complex parts with exacting tolerance. Our diverse precision fabrication equipment enables us to manufacture a broad range of machined parts using a broad range of materials, from exotic metals to basic plastics. Our manufacturing capabilities include horizontal and vertical milling, turning and welding.

*Precision Frame Fabrication.* We manufacture frames in all sizes with exacting standards to meet and exceed our customers' needs. We utilize over 25 years of experience in the fabrication of complex frames to provide the cost competitive edge in our vertical integration model.

*Precision Sheet Metal Fabrication.* Our ability to provide complete sheet metal solutions for our customers enables us to support prototype to volume production, from brackets to sheet metal frames, and from structural to cosmetic finishing of the final product.

### ***Our Strategy***

Our objective is to maintain our position as a leading solutions provider in the markets we serve, primarily the semiconductor capital equipment and Other Addressed Industries. Our strategy is comprised of the following key elements:

*Continue to expand our market share with Semiconductor Capital Equipment OEMs.* We believe that the increase in outsourcing among OEMs creates a significant market opportunity for us to grow our business with existing and new customers. We believe our customers will continue to outsource critical subsystems at a rapid pace and that we are well positioned to capture a significant portion of these new outsourcing opportunities. We believe that our continued focus on efficient manufacturing, reduced design-to-delivery cycle times and quality and reliability will also allow us to gain market share.

*Continue to expand our market share in Other Addressed Industries:* We believe we can leverage the attributes and skill sets which allow us to succeed in the semiconductor capital equipment industry to increase our market share in technologically similar markets including robotic surgery, research, flat panel, energy, industrial, and medical equipment.

*Leverage our expanding geographic presence in lower cost manufacturing regions.* In March 2005, we completed construction of a manufacturing facility in Shanghai, China, allowing us to expand production in a low cost region. In November 2007, we completed construction of a second manufacturing facility in Shanghai, China to house our precision machined parts and subsystem assembly operations. These facilities put us in close proximity to the manufacturing facilities of existing and potential customers and their end users. In Singapore, we opened a procurement office in October 2008 and in November 2009 we expanded our operations by opening a manufacturing facility. Our manufacturing facilities are all using the same processes and procedures; enabling us to respond to rapid demand changes by employing as much and as little manufacturing capabilities as required.





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*Drive profitable growth with our flexible cost structure.* We implement cost containment and capacity enhancement initiatives throughout the semiconductor capital equipment demand cycle and benefit greatly from the global presence and efficiencies of our supply chain. In addition, we believe our Shanghai and Singapore facilities position us to respond effectively to future business demands.

*Continue to selectively pursue strategic acquisitions.* We may choose to further accelerate the growth of our business by selectively pursuing strategic acquisitions. We will continue to consider acquisitions that will enable us to expand our geographic presence, secure new customers and diversify into complementary products and markets as well as broaden our technological capabilities in the markets we serve.

### ***Products***

We develop, design, prototype, engineer, manufacture and test subsystems, primarily for the semiconductor capital equipment, robotic surgery, Industrial, flat panel display, medical, energy and research industries. Our products include precision robotic solutions, gas delivery systems, a variety of industrial products; and subsystems that includes chemical mechanical planarization modules, chemical delivery modules, top-plate assemblies, frame assemblies and process modules.

*Precision robotics:* Precision robotic systems are used when accurate controlled motion is required. Some of the systems that employ precision robotic systems are: robotic surgery, industrial equipment and wire bonding systems.

*Robotic Surgery Products:* Robotic surgery is the process of performing a minimally invasive operation on a patient with the help of robotic equipment operated by a physician. This procedure is intended to minimize traumas on the body, scarring and recovery time.

*Gas delivery systems:* A typical gas delivery system consists of one or more gas lines, comprised of several filters, mass flow controllers, regulators, pressure transducers and valves, associated interconnect tubing and an integrated electronic and/or pneumatic control system. These systems are mounted on a pallet and are typically enclosed in a sheet metal encasing. Our gas delivery system designs are developed in collaboration with our customers and are customized to meet the needs of specific OEMs. We do not sell standard systems. Our customers either specify the particular brands of components they want incorporated into a particular system or rely on our design expertise and component characterization capabilities to help them select the appropriate components for their particular system.

*Chemical delivery modules:* Chemical delivery modules deliver gases and reactive chemicals from a centralized subsystem to the reaction chamber and may include gas delivery systems, as well as liquid and vapor delivery systems.

*Top-plate assemblies:* Top-plate assemblies form the top portion of the reaction chamber within which gases controlled by our gas delivery systems react to form thin films or etch films on the wafer.

*Frame assemblies:* Frame assemblies are steel tubing that form the support structure to which all other assemblies are attached and include pneumatic harnesses and cables that connect other critical subsystems together.

*Process modules:* Process modules refer to the larger subsystems of semiconductor manufacturing tools that process integrated circuits onto wafers. Process modules include several smaller subsystems such as the frame assembly, top-plate assembly and gas and chemical delivery modules, as well as the chamber and electronic, pneumatic and mechanical subsystems.

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*Other high level assemblies:* Other high level assemblies refer to large subsystems used in semiconductor manufacturing, research, flat panel, energy and medical equipment industries.

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### ***Customers***

We sell our products to customers in the semiconductor capital equipment, flat panel, medical, energy and research industries. The majority of our revenue is in the semiconductor capital equipment industry, which is highly concentrated, and we are therefore highly dependent upon a small number of customers. Our three largest customers in fiscal year 2012 were Applied Materials, Inc., Lam Research Corporation and Intuitive Surgical Inc., two of which accounted for more than 10% of our total sales in fiscal year 2012. As a result of our acquisition of AIT in July 2012, we added key customers to our customer list, including ASM International. Our three largest customers in fiscal year 2011 were Applied Materials, Inc., Lam Research Corporation and FEI Company, two of which accounted for more than 10% of our total sales in fiscal year 2011. We terminated our manufacturing services to FEI Company at the beginning of our second quarter of fiscal 2012. In fiscal year 2010 our three largest customers were Applied Materials, Inc., Lam Research Corporation, and Novellus, Systems, Inc. two of which accounted for more than 10% of our total sales in fiscal year 2010. As a group, these customers accounted for 80%, 68% and 72% of the Company's sales for fiscal years 2012, 2011 and 2010, respectively. In June 2012, Novellus Systems, Inc. and Lam Research Corporation completed the combination of their businesses. Also, in November 2011, Applied Materials, Inc. completed the acquisition of Varian Semiconductor Equipment Associates, Inc., another one of our customers. The sales percentages above reflect the combined sales of Applied Materials, Inc. and Varian Semiconductor Equipment Associates, Inc. and combined sales of Novellus Systems, Inc. and Lam Research Corporation for 2012 and 2011 for comparison purposes. As a result of these acquisitions, our customer concentration has increased. In addition, we announced in the third quarter of fiscal 2012 that one of our larger semiconductor equipment customers has decided to in-source a portion of their gas panel business. While this decision did not have a material impact on our revenue in fiscal 2012, it could have a negative quarterly impact of 7% to 9% on total revenue by the end of fiscal 2013.

We have successfully qualified as a supplier with each of our customers. This lengthy qualification process involves the inspection and audit of our facilities and evaluation by our customers of our engineering, documentation, manufacturing and quality control processes and procedures before that customer places orders for our products. Our customers generally place orders with suppliers who have met and continue to meet their qualification criteria.

### ***Sales and Support***

We sell our products through our direct sales force which, as of December 28, 2012, consisted of a total of approximately 54 sales directors, account managers and sales support staff. Our sales directors are responsible for establishing sales strategy and setting the objectives for specific customer accounts. Each account manager is dedicated to a specific customer account and is responsible for the day-to-day management of that customer. Account managers work closely with customers and in many cases provide on-site support. Account managers often attend customers internal meetings related to production and engineering design and quality to ensure that customer expectations are interpreted and communicated properly to our operations group. Account managers also work with our customers to identify and meet their cost and design-to-delivery cycle time objectives.

We have dedicated business development managers responsible for new business development for gas delivery systems and other critical subsystems. Our new business development managers initiate and develop long-term, multilevel relationships with customers and work closely with customers on new business opportunities throughout the design-to-delivery cycle. Our sales force includes technical sales support for order placement, spare parts quotes and production status updates. We have a technical sales representative located at each of our manufacturing facilities. In addition, we have developed a service and support infrastructure to provide our customers with service and support 24 hours a day, seven days a week. Our dedicated global field service engineers provide customer support through the performance of on-site installation, servicing and repair of our subsystems.

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### ***Technology Development***

We engage in ongoing technology development efforts in order to remain a technology leader for gas delivery systems and to further develop our expertise in other critical subsystems. In addition, our design engineering and new product engineering groups support our technology development activities. Our technology development group works closely with our customers to identify and anticipate changes and trends in next-generation equipment. Our technology development group participates in customer technology partnership programs that focus on process application requirements for gas delivery systems and other critical subsystems. These development efforts are designed to meet specific customer requirements in the areas of subsystem design, materials, component selection and functionality. Our technology development group also works directly with our suppliers to help them identify new component technologies and make necessary changes in, and enhancements to, the components that we integrate into our products. Our analytical and testing capabilities enable us to evaluate multiple supplier component technologies and provide customers with a wide range of appropriate component and design choices for their gas delivery systems and other critical subsystems. Our analytical and testing capabilities also help us anticipate technological changes and the requirements in component features for next-generation gas delivery systems and other critical subsystems. We are also developing additional features to improve the performance and functionality of our gas delivery systems and other critical subsystems. Our technology development and new product engineering expenses were approximately \$5.1 million, \$5.6 million and \$5.5 million for the 2012, 2011 and 2010 fiscal years, respectively. We perform our technology development activities principally at our facilities in Hayward, California.

### ***Intellectual Property***

Our success depends in part on our ability to maintain and protect our proprietary technology and to conduct our business without infringing the proprietary rights of others. Our business is largely dependent upon our design, engineering, manufacturing and testing know-how. We also rely on a combination of trade secrets and confidentiality provisions, and to a much lesser extent, patents, copyrights and trademarks, to protect our proprietary rights. As of December 28, 2012, we had two issued U.S. patents, all of which expire in 2018, and we had no U.S. patent applications pending. None of our issued patents are material to our business. Intellectual property that we develop on behalf of our customers is generally owned exclusively by those customers.

We routinely require our employees, suppliers and potential business partners to enter into confidentiality and non-disclosure agreements before we disclose to them any sensitive or proprietary information regarding our products, technology or business plans. We require employees to assign to us proprietary information, inventions and other intellectual property they create, modify or improve.

### ***Competition***

Our industry is highly fragmented. When we compete for new business, we face competition from other suppliers of gas delivery systems and other critical subsystems as well as the internal manufacturing groups of OEMs. In addition, OEMs that have elected to outsource their gas delivery systems and other critical subsystems could elect in the future to develop and manufacture these subsystems internally, leading to further competition. Our principal competitors for our gas delivery systems are Ichor Systems, Inc., and our principal competitors for other critical subsystems are Flextronics International Ltd., Fox Semicon Integrated Technology Inc. and Celestica. Some of these competitors have substantially greater financial, technical, manufacturing and marketing resources than we do. We expect our competitors to continue to improve the performance of their current products and to introduce new products or new technologies that could adversely affect sales of our current and future products. In addition, the limited number of potential customers in our industry further intensifies competition. The primary competitive factors in our industry are price, technology, quality, design-to-delivery cycle time, reliability in meeting product demand, service and historical customer relationships. We anticipate that increased competitive pressures will cause intensified price-based competition and we may have to reduce the prices of our products. In addition, we expect to face new competitors as we enter new markets.

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***Employees***

As of December 28, 2012, we had 1,506 employees, of which 26 were temporary. Of our total employees, there were 77 in engineering, 9 in technology development, 54 in sales and support, 855 in direct manufacturing, 385 in indirect manufacturing and 126 in executive and administrative functions. These figures include 402 employees in Shanghai, China; 92 employees in Singapore; and 33 employees in Cebu, Philippines. None of our employees are represented by a labor union and we have not experienced any work stoppages.

***Governmental Regulation and Environmental Matters***

Our operations are subject to federal, state and local regulatory requirements and foreign laws relating to environmental, waste management and health and safety matters, including measures relating to the release, use, storage, treatment, transportation, discharge, disposal and remediation of contaminants, hazardous substances and wastes, as well as practices and procedures applicable to the construction and operation of our facilities. Our past or future operations may result in exposure to injury or claims of injury by employees or the public which may result in material costs and liabilities to us. Although some risk of costs and liabilities related to these matters is inherent in our business, we believe that our business is operated in substantial compliance with applicable regulations. However, new, modified or more stringent requirements or enforcement policies could be adopted, which could adversely affect us.

***Available Information***

We file with the Securities and Exchange Commission ( SEC ) annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, or the Exchange Act. You may read and copy any materials we file with the SEC at the Public Reference Room maintained by the SEC at 100 F Street, N.E., Washington, D.C. 20549. You may also request copies of all or any portion of such material from the SEC at prescribed rates. Please call the SEC at 1-800-SEC-0330 for further information on the operation of the public reference room. In addition, materials filed electronically with the SEC are available at the SEC's website at <http://www.sec.gov>.

In addition, we make available free of charge, on or through our website at <http://www.uct.com>, our annual, quarterly and current reports and any amendments to those reports, as soon as reasonably practicable after electronically filing such reports with, or furnishing them to, the SEC. This website address is intended to be an inactive textual reference only; none of the information contained on our website is part of this report or is incorporated by reference herein.

***Executive Officers***

Set forth below is information concerning our executive officers as of February 28, 2013:

<b>Name</b>	<b>Age</b>	<b>Position</b>
Clarence L. Granger	64	Chairman & Chief Executive Officer
Dr. Gino Addiego	53	President & Chief Operating Officer
Kevin C. Eichler	53	Senior Vice President and Chief Financial Officer
Bruce Wier	64	Senior Vice President of Engineering
Deborah Hayward	51	Senior Vice President of Sales
Lavi A. Lev	56	Senior Vice President of Asia
Mark G. Bingaman	57	Senior Vice President for Supply Chain Management and Global Materials

*Clarence L. Granger* has served as our Chairman & Chief Executive Officer since October 2006, as our Chief Executive Officer since November 2002, as our Chief Operating Officer from March 1999 to November 2002 and as a member of our Board of Directors since May 2002. Mr. Granger served as our Executive Vice

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President and Chief Operating Officer from January 1998 to March 1999 and as our Executive Vice President of Operations from April 1996 to January 1998. Prior to joining Ultra Clean in April 1996, he served as vice president of Media Operations for Seagate Technology, which designs, manufactures, markets and sells hard disk drives, from 1994 to 1996. Prior to that, Mr. Granger worked for HMT Technology, a supplier of high-performance thin-film disks, as chief executive officer from 1993 to 1994, as chief operating officer from 1991 to 1993 and as president from 1989 to 1994. Prior to that, Mr. Granger worked for Xidex as vice president and general manager, Thin Film Disk Division, from 1988 to 1989, as vice president, Santa Clara Oxide Disk Operations, from 1987 to 1988, as vice president, U.S. Tape Operations, from 1986 to 1987 and as director of engineering from 1983 to 1986. Mr. Granger holds a master of science degree in industrial engineering from Stanford University and a bachelor of science degree in industrial engineering from the University of California at Berkeley.

*Dr. Gino Addiego* has served as President and Chief Operating Officer since March 8, 2011. Dr. Addiego joined Ultra Clean with over 22 years of executive experience in the semiconductor capital equipment industry. Before joining Ultra Clean, Dr. Addiego was at Novellus Systems from February 2005 to March 2011 where he most recently held the position of executive vice president and chief administrative officer and previously, executive vice president of corporate operations. Prior to joining Novellus, Dr. Addiego spent more than nine years at Applied Materials, where he was responsible for global operations (including manufacturing, supply chain, and facilities), all of the semiconductor product groups, central engineering, and information technology. Dr. Addiego has also worked at KLA-Tencor and Photon Dynamics. Dr. Addiego received both his bachelor's and doctorate degrees in Electrical Engineering from the University of California at Berkeley. He holds seven patents and was nominated for the National Inventor of the Year Award in 1993.

*Kevin C. Eichler* has served as our Senior Vice President and Chief Financial Officer since July 2009. Prior to joining Ultra Clean, Mr. Eichler served on the Board of Directors of Ultra Clean from February 2004 to July 2009. Mr. Eichler was the senior vice president and chief financial officer of Credence Systems from January 2008 to November 2008, and the executive vice president of operations and chief financial officer of MarketTools from March 2006 to December 2007. He served as the vice president and chief financial officer of MIPS Technologies from June 1998 to February 2006. Prior to that, he held management positions with several technology companies including Visigenic Software, NeXT Software and Microsoft. Mr. Eichler is on the board of directors of Jasper Design Automation, Inc. Mr. Eichler holds a bachelor of science degree in accounting from St. John's University.

*Bruce Wier* has served as our Senior Vice President of Engineering since January 2007 and Vice President of Engineering since February 2000. Mr. Wier served as our Director of Design Engineering from July 1997 to February 2000. Prior to joining Ultra Clean in July 1997, Mr. Wier was the engineering manager for the Oxide Etch Business Unit at Lam Research from April 1993 to June 1997. Prior to that, Mr. Wier was the senior project engineering manager at Genus from May 1990 to April 1993, the mechanical engineering manager Varian Associates from November 1985 to May 1990, and the principal engineer/project manager at Eaton Corporation from February 1981 to November 1985. Mr. Wier holds a bachelor of science degree *cum laude* in mechanical engineering from Syracuse University.

*Deborah Hayward* has served as our Senior Vice President of Sales since January 2007 and Vice President of Sales since October 2002. Ms. Hayward served as our Senior Sales Director from May 2001 to October 2002, as Sales Director from February 1998 to May 2001 and as a major account manager from October 1995 to February 1998. Prior to joining Ultra Clean in 1995, she was a customer service manager and account manager at Brooks Instruments from 1985 to 1995.

*Lavi A. Lev* has served as our Senior Vice President of Asia since November 2011. Prior to joining Ultra Clean, Mr. Lev served, from August 29, 2008 until his resignation on December 12, 2008, as a director and executive chairman of the Board of LTX-Credence Corporation, a provider of automated test equipment solutions for the semiconductor industry formed by the August 2008 merger of LTX Corporation and Credence

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Systems Corporation. From December 7, 2006 until August 29, 2008, Mr. Lev served as the chief executive officer and president of Credence Systems Corporation, a provider of test solutions for the worldwide consumer semiconductor industry. Prior to that, Mr. Lev served as executive vice president and general manager of the products and solution business at Cadence Design Systems, Inc. from 2000. Mr. Lev has 30 years of business, research and development and operational management experience in the Microprocessor Chip Design, Electronic Design Automation Software (EDA), Test Equipment and Contract Manufacturing industries. Mr. Lev holds a Bachelor of Science degree in electrical engineering from Technion, Israel Institute of Technology and also graduated from the Jerusalem Rubin Academy of Music.

*Mark G. Bingaman* has served as our Senior Vice President for Supply Chain Management and Global Materials since February 2010. Prior to joining Ultra Clean, Mr. Bingaman was the managing director at Applied Materials, Inc. in charge of the site in Tainan, Taiwan which manufactured equipment for solar, glass and display industries. He held additional senior management positions at Applied Materials, Inc. starting from 2000. From 1999 to 2000, Mr. Bingaman was the director for supply chain management integration for Eaton Corporation. Mr. Bingaman held multiple positions at Aeroquip-Vickers, Inc. from 1995 to 1999 including vice president for global supply chain management for Vickers, Incorporated. He held various positions at McDonnell Douglas from 1977 to 1994 including vice president of operations for the McDonnell Douglas Helicopter Company from 1990 to 1994. Mr. Bingaman holds a bachelor of science degree in accounting from the University of Missouri and a master of science degree in management information systems from Southern Illinois University.

### **Item 1A. Risk Factors**

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

Our business and operating results depend in significant part upon capital expenditures by manufacturers in the semiconductor capital equipment, flat panel, medical, energy and research industries, which in turn depend upon the current and anticipated market demand for such products. Historically, the industries we serve (in particular the semiconductor industry) have been highly cyclical, with recurring periods of over-supply of products that have had a severe negative effect on the demand for capital equipment used to manufacture such products. We have experienced and anticipate that we will continue to experience significant fluctuations in customer orders for our products through such cycles, including a continued decline in demand within the semiconductor capital equipment industry through the end of fiscal 2012. Slowdowns in the industries we serve have had, and future slowdowns may also have, a material adverse effect on our operating results. During periods of decreasing demand for our products, we must be able to appropriately align our cost structure with prevailing market conditions, effectively manage our supply chain and motivate and retain employees. During periods of increased demand, we must increase manufacturing capacity and inventory to meet customer demands, effectively manage our supply chain and attract, retain and motivate a sufficient number of employees. If we are not able to timely and appropriately adapt to the changes in our business environment, our results of operations will be harmed. Also, the cyclical and volatile nature of the industries we serve make future revenues, results of operations and net cash flows difficult to estimate.

***We rely on a small number of customers for a significant portion of our sales, and any impairment of our relationships with these customers would adversely affect our business.***

A relatively small number of OEM customers have historically accounted for a significant portion of our sales, and we expect this trend to continue. As a group, three customers accounted for 80%, 68% and 72% of our sales for fiscal years 2012, 2011 and 2010, respectively, and we expect that our sales will continue to be concentrated among a small number of customers. Because of the small number of OEMs in the markets we serve, most of which are already our customers, it would be difficult to replace lost revenue resulting from the loss of, or the reduction, cancellation or delay in purchase orders by, any one of these customers. Our customer contracts generally do not require customers to place any orders. Consolidation among our customers, or a decision by any one or more of our customers to outsource all or most manufacturing and assembly work to a



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single equipment manufacturer, may further concentrate our business in a limited number of customers and expose us to increased risks relating to dependence on an even smaller number of customers. For example, two of our largest semiconductor customers, Novellus Systems, Inc. and Lam Research Corporation, announced in June 2012 that they had completed a transaction pursuant to which they consolidated their businesses. Also, in November 2011, Applied Materials, Inc. completed the acquisition of Varian Semiconductor Equipment Associates, Inc., one of our customers. In addition, we have in the past lost business from customers who have taken the manufacturing of our products in-house. For example, we terminated our manufacturing services to FEI Company at the beginning of our second quarter of fiscal 2012. In addition, we announced in the third quarter of fiscal 2012 that one of our larger semiconductor equipment customers has decided to in-source a portion of their gas panel business. While this decision did not have a material impact on our revenue in fiscal 2012, it could have a negative quarterly impact of 7% to 9% on total revenue by the end of fiscal 2013. If we are unable to replace revenue from customers who determine to take subsystem assembly in-house, or if additional customers determine to in-source subsystem assembly, such events could have a material adverse impact on our financial position and results of operation.

In addition, by virtue of our largest customers' size and the significant portion of revenue that our combined company derives from them, they are able to exert significant influence and pricing pressure in the negotiation of our commercial agreements and the conduct of our business with them. If we are unable to retain and expand our business with these customers on favorable terms, our business and operating results will be adversely affected.

We have had to qualify, and are required to maintain our status, as a supplier for each of our customers. This is a lengthy process that involves the inspection and approval by a customer of our engineering, documentation, manufacturing and quality control procedures before that customer will place volume orders. Our ability to lessen the adverse effect of any loss of, or reduction in sales to, an existing customer through the rapid addition of one or more new customers is minimal because of these qualification requirements. Consequently, our business, operating results and financial condition would be adversely affected by the loss of, or any reduction in orders by, any of our significant customers.

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

We rely to a significant extent on OEM customers, whose business, in turn, depends largely on consumer spending and capital expenditures by businesses. Continuing difficulties in the financial markets and uncertainty regarding the global economy continue to pose challenges to our business. Economic uncertainty and related factors, including unemployment, the European debt crisis, inflation and fuel prices, exacerbate negative trends in business and consumer spending and may cause certain of our customers to push out, cancel, or refrain from placing orders for products or services, which may reduce sales. Difficulties in obtaining capital, uncertain market conditions, or reduced profitability may also cause some customers to scale back operations, exit businesses, merge with other manufacturers, or file for bankruptcy protection and potentially cease operations, leading to customers' reduced research and development funding and/or capital expenditures and, in turn, lower orders from our customers and/or additional slow moving or obsolete inventory or bad debt expense for us. These conditions may also similarly affect key suppliers, which could impair their ability to deliver parts and result in delays for our products or require us to either procure products from high-cost suppliers, or if no additional suppliers exist, to reconfigure the design and manufacture of our products, and we may be unable to fulfill some customer orders. While past downturns in our business have been followed by periods of growth, this correlation may not occur in the future.

***We have significant existing indebtedness; the restrictive covenants under our credit agreement or other limitations on financing may limit our ability to expand or pursue our business strategy or make capital expenditures; if we are forced to prepay some or all of our indebtedness our financial position would be severely and adversely affected.***

We have significant outstanding indebtedness. On July 3, 2012, we refinanced our prior credit facility and entered into a new credit agreement with Silicon Valley Bank, U.S. Bank National Association and HSBC Bank.

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The new credit agreement provided for a new term loan in an aggregate principal amount of \$40.0 million and a new revolving credit facility in an aggregate principal amount of \$40.0 million. On July 3, 2012, we borrowed \$40.0 million under the new term loan and \$39.8 million under the new revolving credit facility to finance our acquisition of AIT and repay Silicon Valley Bank as lender under our prior credit facility. As of December 28, 2012, the long-term portion of our outstanding indebtedness, net of debt issuance costs, under our new credit facility was \$26.9 million, and the short-term portion was \$48.7 million.

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

incur additional debt, including guarantees, or create liens;

pay dividends and make distributions in respect of our capital stock;

repurchase capital stock;

make investments or other restricted payments;

engage in transactions with stockholders and affiliates;

sell or otherwise dispose of assets;

make payments on subordinated indebtedness; and

engage in certain mergers and acquisitions, new lines of business or make other fundamental changes.

The new credit agreement also requires us to maintain certain financial covenants. We cannot assure you that we will be able to maintain compliance with such financial or other covenants. For example, for the measurement periods ending in November and December of 2012, the Company was not in compliance with the minimum consolidated fixed charge coverage ratio, the maximum consolidated leverage ratio or the minimum domestic cash balance covenants under the new credit agreement. On February 15, 2013, the Company and its lenders amended the credit agreement in order for the lenders to waive such non-compliance and to modify the financial covenants contained in the Credit Agreement, effective January 30, 2013. We cannot assure you, however, that we will be able to meet the financial or other covenants under our amended credit agreement in subsequent periods. Our failure to comply with these covenants could result in an event of default which, if not cured or waived, could result in the acceleration of all of our indebtedness, which would adversely affect our financial health. We cannot assure you that we would have sufficient funds to repay all the outstanding amounts, and any acceleration of amounts due under our credit agreement would have a material adverse effect on us. If we are unable to meet our debt obligations, we could be forced to restructure or refinance such obligations, seek additional equity financing or sell assets, which we may not be able to do on satisfactory terms or at all.

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

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

We rely on both single-source and sole-source suppliers, some of whom are relatively small, for many of the components we use in our products. In addition, our customers often specify components of particular suppliers that we must incorporate into our products. Our suppliers are under no obligation to provide us with components. As a result, the loss of or failure to perform by any of these providers could adversely affect our business and operating results. In addition, the manufacturing of certain components and subsystems is an extremely complex process.

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Therefore, if a supplier were unable to provide the volume of components we require on a timely basis and at acceptable prices and quality, we would have to identify and qualify replacements from alternative sources of supply. However, the process of qualifying new suppliers for complex components is also lengthy and could delay our production, which would adversely affect our business, operating results and financial condition.

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Disruption in supply resulting from natural disasters, such as the recent earthquakes, tsunami and related events in Japan, may result in certain of our suppliers being unable to deliver sufficient quantities of components or raw materials at all or in a timely manner. If we, or our vendors, are unable to procure sufficient quantities of components or raw materials from suppliers, it could influence decisions by our customers to delay or cancel orders and decisions by our vendors to fulfill our purchase orders and, consequently, have a material adverse effect on our results of operations.

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

### ***We may not be able to respond quickly enough to increases in demand for our products.***

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

mobilize our supply chain in order to maintain component and raw material supply;

optimize the use of our design, engineering and manufacturing capacity in a timely manner;

deliver our products to our customers in a timely fashion;

expand, if necessary, our manufacturing capacity; and

maintain our product quality as we increase production.

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

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

We made capital expenditures of approximately \$0.6 million in fiscal 2012 and \$4.0 million in fiscal 2011 related to our manufacturing facilities in the United States, China and Singapore. Capital expenditures only include AIT's capital expenditures from its acquisition date of July 3, 2012. In addition, we paid approximately \$75.3 million in cash and issued 4.5 million shares of our common stock valued at \$29.6 million for a total purchase price of \$104.9 million in connection with our acquisition of AIT. The cash portion of the merger consideration was financed through the new credit facility described above. The amount of our future capital requirements or strategic acquisitions will depend on many factors, including:

the cost required to ensure access to adequate manufacturing capacity;

the timing and extent of spending to support product development efforts;

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the timing of introductions of new products and enhancements to existing products;

the cost required to complete AIT's enterprise resource planning implementation and to migrate AIT and its subsidiaries to our enterprise resource planning system;

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changing manufacturing capabilities to meet new customer requirements;

market acceptance of our products; and

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

We had \$54.3 million in cash and cash equivalents and no borrowings available under our new revolving credit facility for future borrowings as of December 28, 2012. In addition, as of December 28, 2012, \$29.6 million of our cash and cash equivalents was held by our foreign subsidiaries. If these funds are needed for our operations or to fund capital expenditures or other strategic acquisitions in the U.S., we would be required to accrue and pay U.S. taxes to repatriate these funds.

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

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

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

demand for and market acceptance of our products as a result of the cyclical nature of the industries we serve or otherwise, often resulting in reduced sales during industry downturns and increased sales during periods of industry recovery;

overall economic conditions;

changes in the timing and size of orders by our customers;

strategic decisions by our customers to terminate their outsourcing relationship with us;

strategic consolidation by our customers;

cancellations and postponements of previously placed orders;

pricing pressure from either our competitors or our customers, resulting in the reduction of our product prices;

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disruptions or delays in the manufacturing of our products or in the supply of components or raw materials that are incorporated into or used to manufacture our products, thereby causing us to delay the shipment of products;

decreased margins for several or more quarters following the introduction of new products, especially as we introduce new subsystems;

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delays in ramp-up in production, low yields or other problems experienced at our manufacturing facilities in China;

changes in design-to-delivery cycle times;

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

changes in our mix of products sold;

write-offs of excess or obsolete inventory;

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

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

geographic mix of worldwide earnings.

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

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

Depending on market conditions, we intend to expand our operations in Asia, principally in China and Singapore. In addition, through our acquisition of AIT, we acquired a manufacturing facility in Cebu, Philippines. The carrying amount of our assets in Asia was \$54.5 million as of December 28, 2012.

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

foreign currency exchange fluctuations;

political, civil and economic instability;

tariffs and other barriers;

timing and availability of export licenses;



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disruptions to our and our customers' operations due to the outbreak of diseases, such as SARS and avian flu;

disruptions in operations due to China's developing domestic infrastructure, including transportation and energy;

difficulties in developing relationships with local suppliers;

difficulties in attracting new international customers;

difficulties in accounts receivable collections;

difficulties in staffing and managing distant international subsidiary and branch operations;

the burden of complying with foreign and international laws and treaties;

legal systems potentially subject to undue influence or corruption;

difficulty in transferring funds to other geographic locations; and

potentially adverse tax consequences, including restrictions on the repatriation of earnings.

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

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

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

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

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

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

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***OEMs may not continue to outsource critical subsystems, which would adversely impact our operating results.***

The success of our business depends on OEMs continuing to outsource the manufacturing of critical subsystems. Most of the largest OEMs have already outsourced production of a significant portion of their critical subsystems. If OEMs do not continue to outsource critical subsystems for their capital equipment, our revenue would be significantly reduced, which would have a material adverse effect on our business, financial condition and operating results. In addition, if we are unable to obtain additional business from OEMs, even if they continue to outsource their production of critical subsystems, our business, financial condition and operating results could be adversely affected.

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

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

***The success of our merger with AIT will depend, among other things, on successfully maintaining or improving relationships with AIT's pre-existing customers and motivating and retaining AIT's employees, and any failure to integrate successfully the businesses of Ultra Clean and AIT will adversely affect the combined company's future results.***

Our acquisition of AIT in the third quarter of fiscal 2012 was a significant acquisition to us and the largest acquisition in our history. The success of our merger with AIT will depend, in large part, on the ability of the combined company to realize the anticipated benefits of the transaction, including combined capabilities and resources, new customers and, to a lesser extent, annual net operating synergies. To realize these anticipated benefits, the combined company must successfully integrate the businesses of Ultra Clean and AIT. Our efforts to fully integrate two companies that have previously operated independently may result in significant challenges, and we may be unable to accomplish the integration smoothly or successfully. The failure to integrate successfully and to manage successfully the challenges presented by the integration process may result in the combined company's failure to achieve some or all of the anticipated benefits of the merger. In particular, like us, AIT's revenue is concentrated in a small number of customers who do not have long-term purchase orders or contracts that contain minimum purchase commitments. AIT's customers may react negatively to the combined business and reduce or cease doing business with the combined company in favor of our competitors or taking our business in-house. The failure to maintain important customer relationships could have a material adverse effect on the business, financial condition or results of operations of the combined company. The integration also requires combining personnel with varied business backgrounds and combining businesses with different corporate cultures and objectives. AIT has its own unique business culture and business processes that may be disrupted in the process of integrating the businesses of the combined company. These disruptions could result in employee dissatisfaction and attrition, operational inefficiencies or increased operating costs and have a material adverse impact on the combined company's results of operation and financial condition.

Other potential difficulties that may be encountered in the integration process include the following:

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

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Ensuring AIT and the combined company are in compliance with public company obligations within required periods, including the corporate governance and other requirements of the Sarbanes-Oxley Act of 2002, to which AIT was not previously subject as a privately held company;

Integrating capabilities from the two companies while maintaining focus on providing consistent, high quality products;

Incorporating different financial and reporting controls, processes, systems and technologies into our existing business environment.

Potential unknown liabilities and unforeseen expenses, delays or regulatory conditions associated with the merger for which we do not have recourse under the merger agreement; and

Performance shortfalls at one or both of the companies as a result of the diversion of management's attention caused by integrating the companies' operations.

We may incur substantial costs associated with these activities and we may suffer other material adverse effects from our integration efforts, including write-downs, impairment charges or unforeseen liabilities which could negatively affect our operating results or financial position or could otherwise harm our business. We cannot assure you that the combined company will be successful or will realize expected operating efficiencies, revenue and earnings accretion and other benefits currently anticipated to result from the merger. The dedication of management resources to such integration may also detract attention from the day-to-day business, and we may need to hire additional management personnel to manage our acquisitions successfully, resulting in increased operating costs.

***We may not be able to integrate efficiently the operations of other businesses acquired in the future, which would adversely affect the combined company's future results.***

We have made, and may in the future make, acquisitions of, or significant investments in, businesses that offer complementary products, services, technologies or market access. For example, we acquired Sieger Engineering, Inc. in June 2006 and AIT in July 2012. Management also evaluates other potential strategic transactions regularly with its advisors and our board of directors in the ordinary course of business. If we identify an appropriate acquisition candidate, we may not be successful in negotiating the terms of the acquisition, financing the acquisition, or effectively integrating the acquired business, product or technology into our existing business and operations. Our due diligence may fail to identify all of the problems, liabilities or other shortcomings or challenges of an acquired business, product or technology, including issues related to intellectual property, product quality or product architecture, regulatory compliance practices, revenue recognition or other accounting practices or employee or customer issues.

Additionally, in connection with any acquisitions we are able to complete, we would likely face challenges in integrating the acquired business that are similar to those we may face in integrating AIT's operations that are discussed in the preceding risk factor. These challenges may result in substantial costs, the failure to achieve expected synergies or other anticipated benefits and other effects which could adversely affect our results of operations in a material way. The dedication of management resources to such integration or divestitures may divert attention from our day-to-day business, and we may need to hire additional management personnel to manage our acquisitions successfully.

Moreover, our recent acquisition of AIT could compound the challenges of integrating complementary products, services and technologies in the future. As discussed above, our integration with AIT is not complete, and the integration could divert a significant amount of management resources, resulting in less employee time and resources available to focus on negotiating and integrating new acquisitions.

If we finance future acquisitions by issuing convertible debt or equity securities, our existing stockholders may be diluted, which could affect the market price of our stock. Even if an acquisition or other investment is not

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completed, we may incur significant management time and effort and financial cost in evaluating such acquisition or investment, which has in the past had, and could in the future have, an adverse effect on our results of operations. Furthermore, due to the limited liquidity in the credit market and our existing leverage, the financing of any such acquisition may be difficult to obtain, and the terms of such financing may not be favorable.

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

We had \$56.7 million of goodwill recorded on our consolidated balance sheet as of December 28, 2012. Goodwill represents the excess of cost over the fair market value of net tangible and finite lived, identifiable intangible assets acquired in business combinations. If our market capitalization drops significantly below the amount of net equity recorded on our balance sheet, it could indicate a decline in our value and would require us to further evaluate whether our goodwill has been impaired. During the fourth quarter of each year, we perform an annual review of our goodwill to determine if it has become impaired, in which case we would write down the impaired portion of our goodwill. We also evaluate goodwill for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If we were required to write down all or a significant part of our goodwill, our operating results and net worth could be materially adversely affected.

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

Our business is largely dependent upon our design, engineering, manufacturing and testing know-how. We rely on a combination of trade secrets and contractual confidentiality provisions and, to a much lesser extent, patents, copyrights and trademarks to protect our proprietary rights. Accordingly, our intellectual property position is more vulnerable than it would be if it were protected by patents. If we fail to protect our proprietary rights successfully, our competitive position could suffer, which could harm our operating results. We may be required to spend significant resources to monitor and protect our proprietary rights, and, in the event we do not detect infringement of our proprietary rights, we may lose our competitive position in the market if any such infringement occurs. In addition, competitors may design around our technology or develop competing technologies and know-how.

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

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

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

Rapid technological innovation in the markets we serve requires us to anticipate and respond quickly to evolving customer requirements and could render our current product offerings and technology obsolete. Technological innovations are inherently complex. We must devote resources to technology development in

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order to keep pace with such rapidly evolving technologies. We believe that our future success will depend upon our ability to design, engineer and manufacture products that meet the changing needs of our customers. This requires that we successfully anticipate and respond to technological changes in design, engineering and manufacturing processes in a cost-effective and timely manner. If we are unable to integrate new technical specifications into competitive product designs, develop the technical capabilities necessary to manufacture new products or make necessary modifications or enhancements to existing products, our business prospects could be harmed.

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

design innovative and performance-enhancing features that differentiate our products from those of our competitors;

identify emerging technological trends in the industries we serve, including new standards for our products;

accurately identify and design new products to meet market needs;

collaborate with OEMs to design and develop products on a timely and cost-effective basis;

ramp-up production of new products, especially new subsystems, in a timely manner and with acceptable yields;

successfully manage development production cycles; and

respond effectively to technological changes or product announcements by others.

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

Although we have not faced competition in the past from the largest subsystem and component manufacturers in the industries we serve, these suppliers could compete with us in the future. Increased competition has in the past resulted, and could in the future result, in price reductions, reduced gross margins or loss of market share, any of which would harm our operating results. We are subject to significant pricing pressure as we attempt to maintain and increase market share with our existing customers. Competitors may introduce new products for the markets currently served by our products. These products may have better performance, lower prices and achieve broader market acceptance than our products. Further, OEMs typically own the design rights to their products and may provide these designs to other subsystem manufacturers. If our competitors obtain proprietary rights to these designs such that we are unable to obtain the designs necessary to manufacture products for our OEM customers, our business, financial condition and operating results could be adversely affected.

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

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

New capital equipment typically has a lifespan of several years, and OEMs frequently specify which systems, subsystems, components and instruments are to be used in their equipment. Once a specific system, subsystem, component or instrument is incorporated into a piece of capital equipment, it will likely continue to be incorporated into that piece of equipment for at least several months before the OEM would be in a position to switch to the product of another supplier.

Accordingly, it is important that our products are designed into the new capital equipment of OEMs, which we refer to as a design win, in order to retain our competitive position with existing customers and to obtain new customers.

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

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

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

cause delays in product introductions and shipments;

result in increased costs and diversion of development resources;

cause us to incur increased charges due to unusable inventory;

require design modifications;

result in liability for the unintended release of hazardous materials;

create claims for rework, replacement and/or damages under our contracts with customers;

decrease market acceptance of, or customer satisfaction with, our products, which could result in decreased sales and product returns;  
or

result in lower yields for semiconductor manufacturers.

If any of our products contain defects or have reliability, quality or compatibility problems, our reputation might be damaged and customers might be reluctant to buy our products. We may also face a higher rate of product defects as we increase our production levels. Product defects could result in the loss of existing customers or impair our ability to attract new customers. In addition, we may not find defects or failures in our products until after they are installed in a manufacturer's fabrication facility. We may have to invest significant capital and other resources to correct these problems. Our current or potential customers also might seek to recover from us any losses resulting from defects or failures in our

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products. Hazardous materials flow through and are controlled by our products and an unintended release of these materials could result in serious injury or death. Liability claims could require us to spend significant time and money in litigation or pay significant damages.



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

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

Our business is particularly dependent on expertise which only a very limited number of engineers possess. The loss of any of our key employees and officers, including our Chief Executive Officer, our President and Chief Operating Officer, our Chief Financial Officer, any of our Senior Vice Presidents or any of the senior managers of AIT, or the failure to attract and retain new qualified employees, could adversely affect our business, operating results and financial condition.

The challenges of employee retention may also increase during the integration process with AIT because of the necessity of combining personnel with varied business backgrounds and combining different corporate cultures and objectives. The process of integrating operations and making such adjustments could cause an interruption of, or loss of momentum in, the activities of one or more of our businesses and the loss of key personnel. Employee uncertainty, lack of focus or turnover during the integration process may also disrupt our businesses.

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

Effective internal controls are necessary for us to provide reliable financial reports and prevent fraud. In addition, Section 404 of the Sarbanes-Oxley Act of 2002 requires us and our independent registered public accounting firm to evaluate and report on our internal control over financial reporting. The process of designing, implementing, maintaining and updating our internal controls and complying with Section 404 is expensive and time consuming, and requires significant attention from management and company resources. For example, we are in the process of integrating AIT into our internal control framework, and we and our independent registered public accounting firm will be required to evaluate and report on AIT's internal controls beginning as of the fiscal year ended December 27, 2013. We anticipate that integrating AIT will require substantial resources, and we cannot assure you that we will be able to successfully or effectively implement and maintain adequate controls over our financial processes at AIT. Even though we have concluded, and our independent registered public accounting firm has concurred, that our internal control over financial reporting provides reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles as of December 28, 2012, because of its inherent limitations, internal control over financial reporting may not prevent or detect fraud or misstatements, and our internal control may not be effective as of future periods. Failure to maintain existing or implement new or improved controls, or difficulties encountered in their implementation, could harm our results of operations or cause us to fail to meet our reporting obligations. If we or our independent registered public accounting firm discover a material weakness, the disclosure of that fact, even if quickly remedied, could reduce the market's confidence in our financial statements and harm our stock price.

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

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

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revenue or costs are denominated and the U.S. dollar may affect our revenue, cost of sales and operating margins. While fluctuations in the value of our revenue, cost of sales and operating margins as measured in U.S. dollars have not materially affected our results of operations historically, we do not currently hedge our foreign exchange exposure, and exchange rate fluctuations could have an adverse effect on our financial condition and results of operations in the future.

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

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

*If our facilities were to experience catastrophic loss due to natural disasters, our operations would be seriously harmed.*

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

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

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

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

*The market for our stock is subject to significant fluctuation.*

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

quarterly variations in our operating results;

our ability to successfully introduce new products and manage new product transitions;

changes in revenue or earnings estimates or publication of research reports by analysts;

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speculation in the press or investment community;

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

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

general market conditions;

the effects of war and terrorist attacks; and

domestic and international economic factors unrelated to our performance.

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

***A sale of a substantial number of shares of our common stock by the former owner of AIT may cause the price of our common stock to decline.***

Sales of a substantial number of shares of our common stock in the public market could harm the market price of our common stock. We issued 4.5 million shares of our common stock in connection with our acquisition of AIT, representing approximately 16% of our total common shares outstanding immediately following the completion of the merger. We entered into a lock-up and standstill agreement with AIT's former owner, AIT Holding Company, LLC, and certain of its affiliates which prohibited any sales of the shares until January 3, 2013. After January 3, 2013, the holders are permitted to sell up to 25% of the shares in any given 90-day period over the subsequent twelve months, after which twelve month period there are no further contractual transfer restrictions on the shares, and the shares can be freely sold by their holders, subject to compliance with state and federal securities laws. As the lock-up restrictions expire, the shares issued in connection with the merger will thus become available for resale in the public market, and such sales could significantly decrease the market price of our common stock.

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

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

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

We do not intend to declare and pay dividends on our capital stock for the foreseeable future. We currently intend to invest our future earnings, if any, to fund our growth. Additionally, the terms of the credit agreement we entered into in July 2012 restricts our ability to pay dividends. Therefore, you are not likely to receive any dividends on your common stock for the foreseeable future.

### **Item 1B. Unresolved Staff Comments**

None.

**Item 2. Properties**

Our headquarters is located in a 104,000 square foot facility in Hayward, California. This is our principal administrative, sales and support, engineering and technology development and manufacturing facility. This

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lease was modified in the fourth quarter of 2012 and, for certain consideration, the lease was extended from 2015 to 2022. We also have manufacturing and engineering facilities in South San Francisco, California. In South San Francisco we lease approximately 72,000 square feet under several leases with varying expiration dates and extension periods. Approximately 12,300 square feet in South San Francisco is a neat room facility and 1,300 square feet is a clean room manufacturing facility. We also have manufacturing facilities in Austin, Texas, and Shanghai, China. In Austin, we lease an aggregate of approximately 56,400 square feet of commercial space under leases that expire in August 2016 with extension provisions. Approximately 14,400 square feet in Austin is a clean room manufacturing facility. In Shanghai, we lease approximately 132,000 square feet of commercial space under two leases which expire in 2013 and 2016. Approximately 11,000 square feet of this space is a clean room facility. In Singapore, we lease approximately 35,000 square feet under a lease that expires in October 2014.

With the acquisition of AIT in the third quarter of 2012, we have additional leases for facilities in Arizona, Texas and the Philippines. In Arizona, we lease approximately 120,000 square feet under leases that mostly expire in September 2017. In Texas, we lease an additional 30,500 square feet under leases that expire December 2015 and June 2016. In the Philippines, we lease approximately 16,000 square feet under leases that expire in 2013 through 2016.

The table below lists our properties as of February 19, 2013:

Location	Principal Use	Square Footage	Ownership
Hayward, California	Headquarters, manufacturing, sales, engineering, technology development	104,000	Leased
South San Francisco, California	Manufacturing, engineering	72,000	Leased(1)
Austin, Texas	Manufacturing, engineering	56,400	Leased
Pflugerville, Texas	Manufacturing	30,500	Leased
Chandler, Arizona	Manufacturing	120,000	Leased(2)
Cebu, Philippines	Manufacturing	16,000	Leased
Singapore	Manufacturing, customer support	35,000	Leased
Shanghai, China	Manufacturing	132,000	Leased

- (1) We lease a facility from an entity controlled by one of our directors. We incurred rent expense resulting from the lease of this facility of \$0.3 million for each of fiscal years 2012 and 2011.
- (2) Consists of seven separate properties under seven separate leases.

**Item 3. Legal Proceedings**

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

**Item 4. Mine Safety Disclosures**

Not applicable.

**Table of Contents****PART II****Item 5. Market for Registrant's Common Equity, Related Stockholder Matters, and Issuer Purchases of Equity Securities**

Our common stock has been traded on the NASDAQ Global Market under the symbol "UCTT" since March 25, 2004. The following table sets forth for the periods indicated the high and low closing sales prices per share of our common stock as reported by the NASDAQ Global Market:

	High	Low
<b>Fiscal year 2011</b>		
First quarter	\$ 13.18	\$ 8.63
Second quarter	\$ 11.70	\$ 8.17
Third quarter	\$ 9.76	\$ 3.94
Fourth quarter	\$ 6.46	\$ 3.87
<b>Fiscal year 2012</b>		
First quarter	\$ 8.95	\$ 5.79
Second quarter	\$ 7.99	\$ 5.32
Third quarter	\$ 6.88	\$ 5.62
Fourth quarter	\$ 5.76	\$ 4.40

To date, we have not declared or paid cash dividends to our stockholders and we do not intend to do so for the foreseeable future in order to retain earnings for use in our business. Our credit facility also limits our ability to pay dividends. As of February 28, 2013, we had 7 stockholders of record. As of March 6, 2013, our closing stock price on the NASDAQ Global Market was \$6.38.

**Table of Contents****Item 6. Selected Consolidated Financial Data**

You should read the following tables in conjunction with other information contained under Management's Discussion and Analysis of Financial Condition and Results of Operations, our consolidated financial statements and related notes and other financial information contained elsewhere in this Annual Report on Form 10-K.

**Statements of Operations Data (in thousands, except per share amounts):**

	12/28/2012*	12/30/2011	Years Ended 12/31/2010	1/01/2010	1/02/2009
<b>Consolidated Statements of Operations Data:</b>					
Sales	\$ 403,430	\$ 452,639	\$ 443,134	\$ 159,757	\$ 266,919
Cost of goods sold	347,642	393,647	383,993	151,741	241,453
Gross profit	55,788	58,992	59,141	8,016	25,466
Operating expenses, excluding acquisition costs	45,012	35,446	33,664	24,091	32,869
Acquisition costs	2,431				
Impairment of goodwill					34,063
Impairment of long-lived assets					21,017
Income (loss) from operations	8,345	23,546	25,477	(16,075)	(62,483)
Interest expense and other, net	(1,648)	(1,106)	(667)	(791)	(870)
Income (loss) before income taxes	6,697	22,440	24,810	(16,866)	(63,353)
Income tax provision (benefit)	1,544	(1,294)	4,713	3,160	(10,936)
Net income (loss)	\$ 5,153	\$ 23,734	\$ 20,097	\$ (20,026)	\$ (52,417)
Net income (loss) per share:					
Basic	\$ 0.20	\$ 1.05	\$ 0.92	\$ (0.94)	\$ (2.43)
Diluted	\$ 0.20	\$ 1.01	\$ 0.87	\$ (0.94)	\$ (2.43)
Shares used in computation:					
Basic	25,698	22,689	21,799	21,403	21,542
Diluted	26,261	23,437	22,975	21,403	21,542

**Consolidated Balance Sheet Data (in thousands):**

	12/28/2012*	12/30/2011	12/31/2010	1/1/2010	1/02/2009
Cash & cash equivalents	\$ 54,311	\$ 52,155	\$ 34,654	\$ 26,697	\$ 29,620
Working capital	85,883	117,378	96,745	61,411	73,197
Total assets	265,929	178,299	170,385	131,310	117,411
Bank borrowings and long-term debt	75,640	24,733	28,652	15,100	18,471
Short-and long-term rent obligations	2,818	3,223	3,993	4,725	4,955
Total stockholders' equity	156,780	117,285	87,509	61,179	78,399

\* Includes the results of operations of AIT for the period July 3, 2012 through December 28, 2012. Refer to Notes 3, 4 and 5 of Notes to Consolidated Financial Statements.

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### **Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations**

This section and other parts of this Annual Report on Form 10-K contain forward-looking statements that involve risks and uncertainties. Forward-looking statements can also be identified by words such as *anticipate, believe, estimate, expect, intend, may, might, plan, project, will, would, should, could, can, predict, potential, continue, objective*, and similar terms. Forward-looking statements are not guarantees of future performance and our actual results may differ significantly from the results discussed in the forward-looking statements. Factors that might cause such differences include, but are not limited to, those discussed in Item 1A Risk Factors above. The following discussion should be read in conjunction with the consolidated financial statement and notes thereto included in Item 8 of this report. We assume no obligation to revise or update any forward-looking statements for any reason, except as required by law.

#### ***Overview***

We are a leading developer and supplier of critical subsystems, primarily for the semiconductor capital equipment industry. We also leverage the specialized skill sets required to support semiconductor capital equipment to serve the technologically similar markets in the flat panel, medical, energy and research industries, collectively referred to as Other Addressed Industries. We develop, design, prototype, engineer, manufacture and test subsystems which are highly specialized and tailored to specific steps in the semiconductor manufacturing process as well as the manufacturing process in Other Addressed Industries. Our revenue is derived primarily from the sale of gas delivery systems and other critical subsystems including chemical mechanical planarization ( CMP ) subsystems, chemical delivery modules, top-plate assemblies, frame assemblies, process modules and other high level assemblies.

On July 3, 2012, we completed the acquisition of American Integration Technologies LLC ( AIT ), a supplier of critical subsystems to the semiconductor capital equipment, medical, energy, industrial and aerospace industries, for approximately \$75.3 million in cash and 4.5 million shares of our newly issued common stock valued at \$29.6 million for a total purchase price of \$104.9 million. We financed the cash portion of the merger, and repaid our existing indebtedness, by borrowing a total of \$79.8 million under a new senior secured credit facility, of which \$40.0 million represents borrowings under a term loan and \$39.8 million represents borrowings under a revolving credit facility.

Our business has been substantially impacted by the continued semiconductor industry downturn which began during the third quarter of fiscal 2011, as well as general economic conditions. Our sales were \$403.4 million for fiscal year 2012, which included \$63.8 million of sales from AIT, compared to \$452.6 million for fiscal year 2011. Our three largest customers in 2012 were Applied Materials, Inc., Lam Research Corporation and Intuitive Surgical, two of which each accounted for 10% or more in sales for fiscal year 2012. Our three largest customers in 2011 were Applied Materials, Inc., Lam Research Corporation and FEI Company, two of which each accounted for 10% or more in sales for fiscal year 2011. Our three largest customers in fiscal year 2010 were Applied Materials, Inc., Lam Research Corporation and Novellus Systems, Inc., two of which each accounted for 10% or more of sales in fiscal year 2010. As a group, the respective customers accounted for 80%, 68% and 72% of our sales for fiscal years 2012, 2011 and 2010, respectively.

Effective as of the end of the first quarter of 2012, we agreed to terminate our arrangement with FEI Corporation, whereby FEI would take back the manufacturing process they had been outsourcing to us since 2008. As part of an arrangement, we agreed to assist FEI during the transition period through our third quarter of fiscal 2012 and, as a result, recorded revenue totaling \$2.1 million related to these efforts during that timeframe, offset by associated costs.

We announced in the third quarter of fiscal 2012 that one of our larger semiconductor equipment customers has decided to in-source a portion of their gas panel business. While this decision did not have a material impact on our revenue in fiscal 2012, it could have a negative quarterly impact of 7% to 9% on total revenue by the end of fiscal 2013.



**Table of Contents****Results of Operations**

The following table sets forth income statement data for the periods indicated as a percentage of revenue:

	December 28, 2012	Year Ended December 30, 2011	December 31, 2010
Sales	100.0%	100.0%	100.0%
Cost of goods sold	86.2%	87.0%	86.7%
Gross profit	13.8%	13.0%	13.3%
Operating expenses:			
Research and development	1.3%	1.2%	1.2%
Sales and marketing	1.7%	1.6%	1.6%
General and administrative	8.1%	5.0%	4.8%
Acquisition costs	0.6%		
Total operating expenses	11.8%	7.8%	7.6%
Income from operations	2.1%	5.2%	5.7%
Interest and other income (expense), net	(0.4)%	(0.2)%	(0.1)%
Income before provision for income taxes	1.7%	5.0%	5.6%
Income tax provision (benefit)	0.4%	(0.2)%	1.1%
Net income	1.3%	5.2%	4.5%

**Fiscal Year 2012 Compared With Fiscal Year 2011****Sales**

Sales for fiscal year 2012 decreased \$49.2 million, or 10.9%, to \$403.4 million from \$452.6 million for fiscal year 2011. The sales decline primarily reflects a decrease in semiconductor revenues resulting from the continued semiconductor industry downturn which began during the third quarter of fiscal 2011 as well as the continued softness in the energy industry, partially offset by the inclusion of sales of \$63.8 million due to the acquisition of AIT for the period July 3, 2012 through December 28, 2012. In addition, sales to FEI decreased in fiscal 2012 to approximately \$11.7 million from \$32.0 million in fiscal 2011, due to the termination of our relationship with FEI in fiscal 2012. We expect the semiconductor equipment industry to begin a modest recovery in the first quarter of 2013 and therefore expect sales to increase modestly as well, as compared to the fourth quarter of fiscal 2012.

**Gross Profit**

Cost of goods sold consists primarily of purchased materials, inventory reserves and labor and overhead, including depreciation, associated with the design and manufacture of products sold. Gross profit for fiscal year 2012 decreased to \$55.8 million, or 13.8% of sales, from \$59.0 million, or 13.0% of sales, for fiscal year 2011. Our gross margin increased in fiscal 2012 from the comparable period in 2011 due primarily to a sales mix which included higher margin products, certain improvements in operational efficiencies at our manufacturing locations, favorable work order variances and a reduction in floor stock costs, partially offset by an increase in inventory reserves. We expect our gross profit to be slightly higher in the first quarter of 2013, as compared to fiscal 2012, due to expected higher revenues.

**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 fiscal year 2012 was \$5.1 million, or 1.3% of sales, compared to \$5.6 million, or 1.2% of sales for fiscal year 2011. The decrease in expense for fiscal 2012, as compared

to fiscal 2011, is primarily due to a reduction in expenses which are allocated from cost of sales to research and development activities.

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### ***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 fiscal year 2012 decreased \$0.2 million to \$7.0 million, or 1.7% of sales, compared to \$7.3 million, or 1.6% of sales, for fiscal year 2011. The decrease in expense is primarily due to a reduction in commission expense resulting from reduced sales.

### ***General and Administrative Expense***

General and administrative expense consists primarily of salaries and overhead associated with our administrative staff and professional fees. General and administrative expense for fiscal year 2012 increased approximately \$10.2 million, or 45.2% to \$32.9 million, or 8.1% of sales, compared with \$22.6 million, or 5.0% of sales, for fiscal year 2011. The increase when comparing fiscal 2012 with fiscal 2011 is primarily due to (a) amortization of finite-lived intangibles associated with the AIT acquisition of approximately \$3.8 million, (b) the inclusion of AIT's general and administrative expenses since the date of acquisition of approximately \$4.7 million and (c), an increase in stock compensation costs of approximately \$0.7 million.

### ***Acquisition costs***

Acquisition costs were approximately \$2.4 million, or 0.6% of sales, in fiscal 2012 which are costs associated with our purchase of AIT and consist primarily of professional fees and services in connection with the acquisition.

### ***Interest and Other Income (Expense), net***

Interest and other income (expense), net for fiscal year 2012 was \$(1.6) million compared to \$(1.1) million for fiscal year 2011 primarily due to the increase in debt in the third quarter of 2012 resulting from the acquisition of AIT.

### ***Income Tax Provision***

Our effective tax rate for fiscal year 2012 was a provision of 23.1% compared to a benefit of 5.8% for fiscal year 2011. The change in respective rates reflects, primarily, changes in our deferred tax assets and our accrual for uncertain tax positions, as well as a change in the geographic mix of worldwide earnings and financial results for the for fiscal year 2012 compared to fiscal year 2011. Our effective tax rate was lower than the statutory rate for fiscal 2012 primarily due to the geographic distribution of our world-wide earnings in foreign jurisdictions with lower tax rates. Our effective tax rate was lower than the statutory rate for fiscal year 2011 primarily due to the favorable impacts of the release of a valuation allowance, discussed in further detail below, as well as to the geographic distribution of our world-wide earnings in foreign jurisdictions with lower tax rates.

As of December 28, 2012, we maintained a full valuation allowance on the deferred assets of one of our China subsidiaries in the amount of \$851,000 as we believe it is more likely than not that the deferred tax asset will not be realized. In order to reverse a valuation allowance, U.S. Accounting principles generally accepted in the United States of America suggests that we review our cumulative income/loss in recent years as well as determine our ability to generate sufficient future taxable income to realize our net deferred tax assets. During the fourth quarter of fiscal 2011 we reversed all of the valuation allowance related to our U.S. federal and state deferred tax assets in the amount of \$6.7 million as we determined that it was more likely than not that it would generate sufficient taxable income to realize its deferred tax assets.

Our ability to realize deferred tax assets depends on our ability to generate sufficient taxable income of the same character within the carryback or carry forward periods. In assessing future accounting principles generally accepted in the United States of America taxable income, we have considered all sources of taxable income

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available to realize its deferred tax assets including the future reversal of existing temporary differences, future taxable income exclusive of reversing temporary differences and carry forwards, taxable income in carryback years and tax-planning strategies. If changes occur in the assumptions underlying our tax planning strategies or in the scheduling of the reversal of our deferred tax liabilities, the valuation allowance may need to be adjusted in the future.

### *Fiscal Year 2011 Compared With Fiscal Year 2010*

#### ***Sales***

Sales for fiscal year 2011 increased \$9.5 million, or 2.1%, to \$452.6 million from \$443.1 million for fiscal year 2010. Substantially all of the revenue increase for the year is attributable to volume increases with existing customers at relatively constant prices. During the final two quarters of fiscal year 2011, however, we experienced a slowdown in demand, primarily in the semiconductor equipment and energy spaces.

#### ***Gross Profit***

Cost of goods sold consists primarily of purchased materials, inventory write-downs, and labor and overhead, including depreciation, associated with the design and manufacture of products sold. Gross profit for fiscal year 2011 increased slightly to \$59.0 million, or 13.0% of sales, from \$59.1 million, or 13.3% of sales, for fiscal year 2010. Our gross margin for fiscal year 2011 decreased from fiscal year 2010 primarily as a result of relatively fixed overhead costs that did not decline proportionately to the decline in revenue experienced in the second half of fiscal year 2011.

#### ***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 fiscal year 2011 was \$5.6 million, or 1.2% of sales, compared to 5.5 million, or 1.2% of sales for fiscal year 2010. The increase in year-over-year expense was due to an increase in payroll and related costs.

#### ***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 fiscal year 2011 increased \$0.4 million to \$7.3 million, or 1.6% of sales, compared to \$6.9 million, or 1.6% of sales, for fiscal year 2010. The increase in year-over-year expense was primarily due to slight increases in payroll and related benefit costs as well as increased commissions due to increased revenue.

#### ***General and Administrative Expense***

General and administrative expense consists primarily of salaries and overhead associated with our administrative staff and professional fees. General and administrative expense for fiscal year 2011 increased approximately \$1.3 million, or 6.3% to \$22.6 million, or 5.0% of sales, compared with \$21.3 million, or 4.8% of sales, for fiscal year 2010. The increase in dollars when comparing fiscal year 2011 with fiscal year 2010 is due primarily to an increase in payroll and related benefit costs associated with an increase in headcount for our Singapore office, offset by reductions in fees for certain outside professional services. The increase in general and administrative expense as a percent of sales for fiscal year 2011, compared to fiscal year 2010 was due primarily to our investment in personnel in Singapore, which resulted in general and administrative related personnel costs for fiscal year 2011 being a greater proportion of sales than in the prior year.

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### ***Interest and Other Income (Expense), net***

Interest and other income (expense), net for fiscal year 2011 was \$(1.1) million compared to \$(0.7) million for fiscal year 2010. The increase in expense for fiscal year 2011 was primarily attributable to an increase in interest expense associated with an \$8.0 million term loan we entered into in October 2010.

### ***Income Tax Provision***

Our effective tax rate for fiscal year 2011 was a benefit of 5.8% compared to a rate of 19.0% for fiscal year 2010. The change in respective rates reflects, primarily, changes in our deferred tax assets and our accrual for uncertain tax positions, as well as a change in the geographic mix of worldwide earnings and financial results for the for fiscal year 2011 compared to fiscal year 2010. Our effective tax rate was lower than the statutory rate for fiscal year 2011 primarily due to the favorable impacts of the release of a valuation allowance, discussed in further detail below, as well as to the geographic distribution of our world-wide earnings in foreign jurisdictions with lower tax rates.

As of December 30, 2011, we maintained a full valuation allowance on the deferred tax assets of one of our China subsidiaries in the amount of \$441,000. During the fourth quarter of fiscal 2011 we reversed all of the valuation allowance related to our U.S. subsidiaries. The impact on our consolidated tax provision for fiscal 2011 was a net reversal of \$6.7 million of valuation allowance. During fiscal 2011 we also released \$0.6 million of valuation allowance due to true-ups and changes in deferred tax assets for which we maintained a full valuation allowance.

### ***Critical Accounting Policies, Significant Judgments and Estimates***

Our consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States, which requires 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.

### ***Revenue Recognition***

Our revenue for fiscal years 2012, 2011 and 2010 was highly concentrated in four OEM customers in the semiconductor capital equipment, energy, flat panel and medical industries. Our standard arrangement for our customers includes a signed purchase order or contract, no right of return of delivered products and no customer acceptance provisions. Revenue from sales of products is recognized when:

we enter into a legally binding arrangement with a customer;

we ship the products;

customer payment is deemed fixed or determinable and free of contingencies or significant uncertainties; and

collection is reasonably assured.

Revenue is recognized upon shipment of the product. In arrangements which specify title transfer upon delivery, revenue is not recognized until the product is delivered. In addition, if we have not fulfilled the terms of the agreement at the time of shipment, revenue recognition is deferred until fulfillment.



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We assess collectability based on the creditworthiness of the customer and past transaction history. We perform on-going credit evaluations of, and do not require collateral from, our customers. We have not experienced significant collection losses in the past. A significant change in the liquidity or financial position of any one customer could make it more difficult for us to assess collectability.

### ***Inventory Valuation***

We write down the carrying value of our inventory to net realizable value for estimated obsolescence or unmarketable inventory in an amount equal to the difference between the cost of inventory and its estimated realizable value based upon assumptions about future demand and market conditions. We assess 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 our estimated usage is written down to its estimated market value less costs to sell, if less than its cost. The inventory write-downs are recorded as an inventory valuation allowance established on the basis of obsolete inventory or specific identified inventory in excess of established usage. Inherent in our estimates of demand and market value in determining inventory valuation are estimates related to economic trends, future demand for our products and technological obsolescence of our products. If actual demand and market conditions are less favorable than our projections, additional inventory write-downs may be required. If the inventory value is written down to its net realizable value, and subsequently there is an increased demand for the inventory at a higher value, the increased value of the inventory is not realized until the inventory is sold either as a component of a subsystem or as separate inventory. For fiscal years 2012, 2011 and 2010, respectively, we wrote down \$1.2 million, \$1.4 million and \$1.4 million in inventory determined to be obsolete.

### ***Accounting for Income Taxes***

The determination of our tax provision is highly dependent upon the geographic composition of worldwide earnings and tax regulations governing each region and are subject to judgments and estimates. Management carefully monitors the changes in many factors and adjusts the effective tax rate as required. The carrying value of our net deferred tax assets, which consist primarily of tax deductions, assumes we will be able to generate sufficient future income to fully realize these deductions. In determining whether the realization of these deferred tax assets may be impaired, we make judgments with respect to whether we are likely to generate sufficient future taxable income to realize these assets. In order to reverse a valuation allowance, accounting principles generally accepted in the United States of America suggest that we review the our cumulative income/loss in recent years as well as determine our ability to generate sufficient future taxable income to realize our net deferred tax assets. As of December 28, 2012, the Company maintained a full valuation allowance on the deferred tax asset of one of its China subsidiaries in the amount of \$0.9 million as we believes it is more likely than not that the deferred tax asset will not be realized. During the fourth quarter of fiscal 2011 we reversed all of the valuation allowance related to our U.S. federal and state deferred tax assets in the amount of \$6.7 million as we determined that it was more likely than not that it would generate sufficient taxable income to realize its deferred tax 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 our expectations could have a material impact on our results of operations and financial position. We believe we have adequately reserved for our uncertain tax positions, however, no assurance can be given that the final tax outcome of these matters will not be different. We adjust these reserves in light of changing facts and circumstances, such as the closing of a tax audit or the refinement of an estimate. To the extent that the final tax outcome of these matters is different than the amounts recorded, such differences will impact the provision for income taxes in the period in which such determination is made. The provision for income taxes includes the impact of reserve provisions and changes to reserves that are considered appropriate, as well as the related net interest.

We file income tax returns in the U.S. federal jurisdiction, various states and foreign jurisdictions. Our 2009 through 2011 federal income tax returns are open to audit through the statute of limitations by the Internal

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Revenue Service. The Company's 2008 through 2011 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. Our federal returns are still open for fiscal years 2004 through 2007 due to the carryback of losses.

### ***Business Combinations***

In accordance with business combination accounting, we allocate the purchase price of acquired companies to the tangible and intangible assets acquired and liabilities assumed based on their estimated fair values. We may engage third-party appraisal firms to assist management in reviewing management's determination of the fair values of acquired intangible assets such as trade name and customer relationships. Such valuations require management to make significant estimates and assumptions. Management makes estimates of fair value based upon assumptions believed to be reasonable. These estimates are based on historical experience and information obtained from the management of the acquired companies and are inherently uncertain.

### ***Goodwill, Intangibles Assets, and Long-lived Assets***

Goodwill is measured as the excess of the cost of an acquisition over the sum of the amounts assigned to identifiable assets acquired less liabilities assumed.

We evaluate our goodwill and indefinite life tradename for impairment on an annual basis, and whenever events or changes in circumstances indicate that the carrying value may not be fully recoverable. In addition, we evaluate our identifiable intangible assets and other long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Factors we consider important which could trigger an impairment review include the following:

Significant changes in the manner of our use of the acquired assets or the strategy of our overall business;

Significant negative changes in revenue of specific products or services;

Significant negative industry or economic trends;

Significant decline in our stock price for a sustained period; and

We continually apply judgment when performing these evaluations and continuously monitor for events and circumstances that could negatively impact the key assumptions in determining fair value, including long-term revenue growth projections, undiscounted net cash flows, discount rates, recent market valuations from transactions by comparable companies, volatility in our market capitalization and general industry, market and macroeconomic conditions. It is possible that changes in such circumstances, or in the variables associated with the judgments, assumptions and estimates used in assessing fair value, would require us to record a non-cash impairment charge.

### ***Equity Incentives to Employees***

We issue stock options and restricted stock units to our employees and outside directors and provide our employees the right to purchase common stock under our employee stock purchase plan. Under current accounting guidance, stock-based compensation cost is measured at the grant date based on the fair value of the award and is recognized as expense over the service (vesting) period.

The Black-Scholes option-pricing model that we use was developed for use in estimating the fair value of short-lived exchange traded options that have no vesting restrictions and are fully transferable. In addition, option-pricing models require the input of highly subjective assumptions, including the option's expected life and the price volatility of underlying stock. Our expected stock price volatility assumption was determined using the historical volatility of our common stock. We determined that historical volatility reflects market conditions and is a good indicator of future volatility. Our expected term represents the period that our stock-based awards are





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expected to be outstanding and was determined based on our historical experience with similar awards, giving consideration to the contractual terms of the stock-based awards and vesting schedules. See Note 8 of Notes to Consolidated Financial Statements for a detailed description.

### ***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 December 28, 2012, we had cash of \$54.3 million compared to \$52.2 million as of December 30, 2011. Our cash and cash equivalents, as well as cash generated from operations, was our principal source of liquidity as of December 28, 2012.

For the twelve months ended December 28, 2012, we generated cash from operating activities of \$27.3 million compared to \$23.7 million for the comparable period of 2011. Operating cash flows generated in the twelve months ended December 28, 2012, were from \$5.2 million of net income; net non-cash activity, including depreciation of equipment and leasehold improvements and amortization of intangibles and debt issuance costs of \$7.2 million and stock-based compensation of \$5.1 million; and decreases in accounts receivable and inventory of \$8.1 million and \$24.3 million, respectively. The decrease in inventory reflects the substantial improvement in inventory management over the previous year. These were offset by an increase in deferred tax assets of \$2.7 million, a net decrease in accounts payable and other current liabilities of \$18.4 million, and a decrease in accrued compensation and related benefits of \$1.1 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.

Net cash used in investing activities for the twelve months ended December 28, 2012, was \$75.6 million, consisting of \$0.6 million for capital expenditures and \$74.9 million for the acquisition of AIT. Investments in capital equipment in 2012 reflect our continued investment in our Asian subsidiaries as well as our domestic operating units. These investments are driven by the timing of our capital expenditures budget.

Net cash provided by (used in) financing activities for the twelve months ended December 28, 2012, was \$50.4 million compared to \$(2.2) million for the comparable period of 2011. For the twelve months ended December 28, 2012, our cash provided by financing activities was due primarily to proceeds from our new credit facility, offset by payments on our prior term debt and revolving line of credit and the payment of \$1.9 million in debt issuance costs relating to our new credit facility. See **Borrowing Arrangements** below for information about our new borrowing arrangements we entered into in connection with our acquisition of AIT on July 3, 2012.

We anticipate that our existing cash balance and operating cash flow will be sufficient to service our indebtedness and meet our working capital requirements and technology development projects for at least the next twelve months. The adequacy of these resources to meet our liquidity needs beyond that period will depend on our growth, the state of the worldwide economy, our ability to meet our financial covenants with our credit facility, the cyclical expansion or contraction of the semiconductor capital equipment industry and the other industries we serve and capital expenditures required to meet possible increased demand for our products.

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 new 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.

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In addition, the undistributed earnings of our foreign subsidiaries at December 28, 2012, are considered to be indefinitely reinvested and unavailable for distribution in the form of dividends or otherwise. Accordingly, no provisions for U.S. income taxes have been provided thereon. We anticipate that we have adequate liquidity and capital resources and would not need to repatriate earnings. As of December 28, 2012, we have cash of approximately \$29.6 million in our foreign subsidiaries.

### ***Borrowing Arrangements***

On July 3, 2012, in connection with our acquisition of AIT and the refinancing of our prior credit facility, we entered into a credit agreement (the Credit Agreement ) by and among the Company, certain of our subsidiaries, Silicon Valley Bank, U.S. Bank National Association and HSBC Bank (collectively, the Lenders ). The Credit Agreement provides for a term loan in an aggregate principal amount of \$40.0 million (the Term Loan ) and a revolving credit facility in an aggregate principal amount of \$40.0 million (the Revolving Credit Facility ), a letter of credit facility in the aggregate availability amount of \$15.0 million (as a sublimit of such Revolving Credit Facility) (the L/C Facility ) and a swingline sub-facility in the aggregate availability amount of \$4.0 million (as a sublimit of the Revolving Credit Facility) (together with the Term Loan, the Revolving Credit Facility and the L/C Facility, the Credit Facility ). On July 3, 2012, we borrowed an aggregate of \$40.0 million under the Term Loan and approximately \$39.8 million under the Revolving Credit Facility. The borrowed funds were used at the closing of our acquisition of AIT to finance the acquisition and repay the outstanding balance of \$3.7 million to Silicon Valley Bank as lender under our prior credit facility. The prior credit facility was terminated in connection with this transaction.

The Credit Facility must be repaid in consecutive quarterly installments of \$2.5 million, with the first payment due on September 30, 2012, and with the balance of the then-outstanding principal amount due at the final maturity, which is July 3, 2016. The Revolving Credit Facility is available for the four-year period beginning on July 3, 2012. The Credit Agreement includes customary representations, warranties, covenants and events of default. The Company and certain of our subsidiaries have agreed to secure all of our obligations under the Credit Agreement by granting a first priority lien in substantially all of our respective personal property assets (subject to certain exceptions and limitations).

At our option, borrowings under the Term Loan and 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 July 3, 2012 were initially base rate loans, carrying interest of 3.75%. We expect, however, that the effective interest rate will be higher due to the incurrence of certain loan-related costs of approximately \$1.9 million that will be treated as deferred interest and amortized over the life of the loan.

The Credit Agreement requires us to maintain certain financial covenants including a minimum consolidated fixed charge coverage ratio, a maximum consolidated leverage ratio and minimum domestic cash balances. For the measurement periods ending in November and December of 2012, we were not in compliance with such covenants. On February 15, 2013, the Company and the Lenders amended the Credit Agreement in order for the lenders to waive such non-compliance and to modify the financial covenants contained in the Credit Agreement, effective January 30, 2013. The Credit Agreement, as amended, requires us to comply with the following financial covenants:

a minimum consolidated fixed charge coverage ratio (as defined in the Credit Agreement, as amended), measured over the preceding four fiscal quarters, beginning as of the end of the third quarter of fiscal 2014, of 1.10 to 1.00, stepping up to 1.25 to 1.00 as of the end of each fiscal quarter beginning with the first quarter of fiscal 2015 and thereafter;

a maximum consolidated leverage ratio (as defined in the Credit Agreement, as amended) measured over the preceding four fiscal quarters, beginning, as of the end of the third quarter of fiscal 2014, of

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4.00 to 1.00, stepping down to 3.75 to 1.00 as of the end of the fourth quarter of fiscal 2014 and thereafter to and including the third quarter of 2015, and 3.25 to 1.00 as of the end of each fiscal quarter beginning with the fourth quarter of 2015 and thereafter;

minimum domestic cash of \$15.0 million as of the last day of any fiscal quarter and \$10.0 million as of the last day of any other fiscal month from January 25, 2013 and thereafter;

a minimum consolidated quick ratio (as defined in the Credit Agreement, as amended) of 1.10 to 1.00 as of the end of each fiscal month from January 25, 2013 and thereafter;

minimum consolidated adjusted EBITDA (as defined in the Credit Agreement, as amended), measured over the preceding two quarters, of \$3.5 million as of the end of the fourth quarter of 2012, \$2.5 million as of the end of the first quarter of 2013, \$3.0 million as of the end of the second quarter of 2013, \$4.0 million as of the end of the third quarter of 2013, \$6.0 million as of the end of the fourth quarter of 2013, \$7.0 million as of the end of the first quarter of 2014 and \$8.0 million as of the end of the second quarter of 2014 and each quarter thereafter.

The Credit Agreement contains provisions requiring the following mandatory prepayments (subject to certain exceptions and limitations): (i) prepayments equal to 50% of the net cash proceeds from the issuance of capital stock by our primary operating subsidiary (or any of its subsidiaries); (ii) prepayments equal to 100% of the net cash proceeds from the incurrence of any indebtedness by the Company's primary operating subsidiary over \$250,000; (iii) prepayments equal to the net cash proceeds from certain asset sales or insurance or condemnation recoveries; and (iv) annual prepayments in an amount equal to (a) 33% of excess cash flow (as defined in the Credit Agreement, as amended) if the aggregate outstanding principal amount of the Term Loan equals or exceeds \$20.0 million and (b) 25% of excess cash flow if the aggregate outstanding principal amount of the 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 December 28, 2012, our term loan and revolver balances were \$36.7 million and \$39.0 million, respectively, which are net of debt issuance costs of \$878,135 and \$826,466, respectively. We have analyzed the Credit Agreement and determined that the outstanding balance of revolver debt should be classified as short-term due to acceleration clauses in the agreement.

### ***Capital Expenditures***

Capital expenditures were \$0.6 million for the year ended December 28, 2012. Capital expenditures only include AIT's capital expenditures from its acquisition date of July 3, 2012.

### ***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.

**Table of Contents****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 December 28, 2012 (in thousands):

	2013	2014	2015	2016	2017	Thereafter	Total
Capital leases	\$ 10	\$ 7	\$	\$	\$	\$	\$ 17
Operating leases(1)	3,928	3,681	3,241	2,658	2,124	8,571	24,203
Borrowing Arrangement(2)	49,844	10,000	10,000	7,500			77,344
Purchase order commitments	25,208						25,208
<b>Total</b>	<b>\$ 78,990</b>	<b>\$ 13,688</b>	<b>\$ 13,241</b>	<b>\$ 10,158</b>	<b>\$ 2,124</b>	<b>\$ 8,571</b>	<b>\$ 126,772</b>

- Operating lease expense reflects (a) the lease for our headquarters facility in Hayward, California that was modified in the fourth quarter of 2012 such that the lease now expires in 2022; (b) the leases for manufacturing facilities in South San Francisco that expire in 2013 (c) the leases for manufacturing facilities in China, Singapore and the Philippines that expire in 2013 thru 2016; (d) the leases for manufacturing facilities in Austin, Texas that expire in 2016 and; (e) the leases for manufacturing facilities in Chandler, Arizona that expire in 2017. We have options to renew certain of the leases in South San Francisco, Hayward and Austin which we expect to exercise.
- Amounts reflect our Credit Facility, under which we borrowed \$40.0 million under the Term Loan and approximately \$39.8 million under the Revolving Credit Facility on July 3, 2012. The Term Loan must be repaid in consecutive quarterly installments of \$2.5 million and with the balance of the outstanding principal amount of the Term Loan due at the final maturity, which is July 3, 2016. The Revolving Credit Facility is available for the four-year period beginning on July 3, 2012. See Note 5. Borrowing Arrangements in Notes to Consolidated Financial Statements below.

**Item 7A. Quantitative and Qualitative Disclosures About Market Risk**

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

**Foreign Exchange Rates**

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

Chinese authorities recently relaxed controls of China's currency, the Renminbi, and allowed the currency to strengthen against other world currencies, including the U.S. dollar. We continue to monitor any potential impact of the appreciation of the Renminbi on our operations in China as well as globally. Changes in the value of the Renminbi did not have a material impact on our results of operations for any of fiscal years 2012, 2011 or 2010.

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***Interest Rates***

Our interest rate risk relates primarily to our party debt which totals \$75.6 million (net of debt issuance costs) as of December 28, 2012 and carries interest rates pegged to either the PRIME rate or LIBOR. An immediate increase in interest rates of 100 basis points would increase our interest expense by approximately \$0.2 million per quarter. This would be partially offset by increased interest income on our invested cash. Conversely, an immediate decline of 100 basis points in interest rates would decrease our interest expense by approximately \$0.2 million per quarter. This would be partially offset by decreased interest income on our invested cash.

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**Item 8. Financial Statements and Supplementary Data**

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Stockholders of

Ultra Clean Holdings, Inc.

Hayward, California

We have audited the accompanying consolidated balance sheets of Ultra Clean Holdings, Inc. and subsidiaries (the Company) as of December 28, 2012 and December 30, 2011, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended December 28, 2012. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Ultra Clean Holdings, Inc. and subsidiaries as of December 28, 2012 and December 30, 2011, and the results of their operations and their cash flows for each of the three years in the period ended December 28, 2012, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 28, 2012, based on the criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 13, 2013 expressed an unqualified opinion on the Company's internal control over financial reporting.

/s/ Deloitte & Touche LLP

San Jose, California

March 13, 2013



**Table of Contents****Ultra Clean Holdings, Inc.****Consolidated Balance Sheets**

	December 28, 2012	December 30, 2011
	(In thousands, except share and per share amounts)	
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 54,311	\$ 52,155
Accounts receivable, net of allowance of \$8 and \$5, respectively	50,074	41,051
Inventory	53,965	55,473
Deferred tax assets	2,856	1,992
Prepaid expenses and other	3,913	3,449
Total current assets	165,119	154,120
Equipment and leasehold improvements, net	9,282	10,009
Goodwill	56,662	
Purchased intangibles, net	27,702	8,987
Deferred tax assets	6,634	4,766
Other non-current assets	530	417
Total assets	\$ 265,929	\$ 178,299
<b>LIABILITIES &amp; STOCKHOLDERS EQUITY</b>		
Current liabilities:		
Bank borrowings	\$ 48,706	\$ 2,931
Accounts payable	23,485	29,451
Accrued compensation and related benefits	4,611	2,803
Deferred rent, current portion	16	895
Other current liabilities	2,418	662
Total current liabilities	79,236	36,742
Long-term debt	26,934	21,802
Deferred rent and other liabilities	2,979	2,470
Total liabilities	109,149	61,014
Commitments and contingencies (See Note 11)		
Stockholders' equity:		
Preferred stock \$0.001 par value, 10,000,000 authorized; none outstanding		
Common stock and additional paid-in capital \$0.001 par value, 90,000,000 authorized; 27,910,851 and 22,910,649 shares issued and outstanding, in 2012 and 2011, respectively	143,180	108,838
Common shares held in treasury, at cost, 601,944 shares in 2012 and 2011, respectively	(3,337)	(3,337)
Retained earnings	16,937	11,784
Total stockholders' equity	156,780	117,285
Total liabilities and stockholders' equity	\$ 265,929	\$ 178,299

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(See notes to consolidated financial statements)

**Table of Contents****Ultra Clean Holdings, Inc.****Consolidated Statements of Operations**

	December 28, 2012	Twelve Months Ended December 30, 2011	December 31, 2010
	(In thousands, except per share amounts)		
Sales	\$ 403,430	\$ 452,639	\$ 443,134
Cost of goods sold	347,642	393,647	383,993
<b>Gross profit</b>	<b>55,788</b>	<b>58,992</b>	<b>59,141</b>
Operating expenses:			
Research and development	5,121	5,556	5,487
Sales and marketing	7,033	7,257	6,887
General and administrative	32,858	22,633	21,290
Acquisition costs	2,431		
<b>Total operating expenses</b>	<b>47,443</b>	<b>35,446</b>	<b>33,664</b>
Income from operations	8,345	23,546	25,477
Interest expense and other, net	1,648	1,106	667
Income before provision (benefit) for income taxes	6,697	22,440	24,810
Income tax provision (benefit)	1,544	(1,294)	4,713
Net income	\$ 5,153	\$ 23,734	\$ 20,097
Net income per share:			
Basic	\$ 0.20	\$ 1.05	\$ 0.92
Diluted	\$ 0.20	\$ 1.01	\$ 0.87
Shares used in computing net income (loss) per share			
Basic	25,698	22,689	21,799
Diluted	26,261	23,437	22,975

(See notes to consolidated financial statements)

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## Ultra Clean Holdings, Inc.

## Consolidated Statements of Stockholders' Equity

	Common Stock		Retained Earnings/ (Accumulated Deficit)	Total Stockholders' Equity
	Shares	Amount (in thousands, except per share amounts)		
<b>Balance January 1, 2010</b>	21,484,178	\$ 93,226	\$ (32,047)	\$ 61,179
Issuance of restricted common stock	30,000			
Issuance under employee stock plans	785,804	1,795		1,795
Amortization of stock-based compensation		3,196		3,196
Excess tax benefit from stock-based compensation		1,242		1,242
Net income			20,097	20,097
<b>Balance December 31, 2010</b>	22,299,982	99,459	(11,950)	87,509
Issuance of restricted common stock	37,500			
Issuance under employee stock plans	573,167	1,011		1,011
Amortization of stock-based compensation		4,359		4,359
Excess tax benefit from stock-based compensation		672		672
Net income			23,734	23,734
<b>Balance December 30, 2011</b>	22,910,649	105,501	11,784	117,285
Issuance of restricted common stock	30,000			
Issuance under employee stock plans	514,889	327		327
Amortization of stock-based compensation		5,069		5,069
Excess tax benefit from stock-based compensation		62		62
Employees' taxes paid upon vesting of restricted stock units	(44,687)	(341)		(341)
Common stock issued for acquisition of AIT, net of equity issuance costs	4,500,000	29,225		29,225
Net income			5,153	5,153
<b>Balance December 28, 2012</b>	27,910,851	\$ 139,843	\$ 16,937	\$ 156,780

(See notes to consolidated financial statements)

**Table of Contents****Ultra Clean Holdings, Inc.****Consolidated Statements of Cash Flows**

	December 28, 2012	Twelve Months Ended December 30, 2011 (In thousands)	December 31, 2010
<b>Cash flows from operating activities:</b>			
Net income	\$ 5,153	\$ 23,734	\$ 20,097
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation	3,195	2,945	2,323
Amortization of finite-lived intangibles	3,786		
Amortization of debt issuance costs	236		
Deferred income tax	(2,731)	(6,278)	(284)
Excess tax benefit from stock-based compensation	(62)	(672)	(1,243)
Stock-based compensation	5,069	4,359	3,196
Changes in assets and liabilities, net of AIT acquisition:			
Accounts receivable	8,047	13,538	(19,802)
Inventory	24,282	3,815	(12,312)
Prepaid expenses and other	(175)	(408)	2,378
Other non-current assets	(114)	(42)	(163)
Accounts payable	(19,498)	(16,506)	(214)
Accrued compensation and related benefits	(1,055)	(886)	1,311
Income taxes payable	63	672	1,242
Other current liabilities	1,143	(547)	(1,386)
<b>Net cash provided by (used in) operating activities</b>	<b>27,339</b>	<b>23,724</b>	<b>(4,857)</b>
<b>Cash flows from investing activities:</b>			
Purchases of equipment and leasehold improvements	(609)	(3,983)	(3,817)
AIT acquisition, net of cash acquired	(74,945)		
Proceeds from sale of equipment			46
<b>Net cash used in investing activities</b>	<b>(75,554)</b>	<b>(3,983)</b>	<b>(3,771)</b>
<b>Cash flows from financing activities:</b>			
Proceeds from revolving credit facilities	96,824	16,000	8,000
Proceeds from long-term loans	40,000		8,000
Principal payments on revolving credit facilities	(76,462)	(16,000)	
Principal payments on long-term debt and capital lease obligations	(7,758)	(3,923)	(2,453)
Payments of debt issuance costs	(1,940)		
Payments of equity issuance costs	(341)		
Excess tax benefit from stock-based compensation	62	672	1,243
Employees' taxes paid upon vesting of restricted stock units	(341)		
Proceeds from issuance of common stock	327	1,011	1,795
<b>Net cash provided by (used in) financing activities</b>	<b>50,371</b>	<b>(2,240)</b>	<b>16,585</b>
Net increase in cash	2,156	17,501	7,957
Cash and cash equivalents at beginning of year	52,155	34,654	26,697
Cash and cash equivalents at end of year	\$ 54,311	\$ 52,155	\$ 34,654

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Supplemental cash flow information:			
Income taxes paid	\$ 5,311	\$ 2,231	\$ 4,538
Income tax refunds	\$ 682	\$ 936	\$ 5,004
Interest paid	\$ 1,551	\$ 1,058	\$ 934
Non-cash investing and financing activities:			
Fair value of common shares issued for acquisition	\$ 29,565		
Restricted stock issued	\$ 4,763	\$ 3,095	\$ 1,275
Fixed asset purchases included in accounts payable	\$ 13	\$ 25	\$ 73

(See notes to consolidated financial statements)

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**Table of Contents**

**Ultra Clean Holdings, Inc.**

**Notes to Consolidated Financial Statements**

**1. Organization and Significant Accounting Policies**

*Organization* Ultra Clean Holdings, Inc. (the Company) is a leading developer and supplier of critical subsystems, primarily for the semiconductor capital equipment industry. The Company also leverages the specialized skill sets required to support semiconductor capital equipment to serve the technologically similar markets in the flat panel, medical, energy and research industries, collectively referred to as Other Addressed Industries. The Company develops, designs, prototypes, engineers, manufactures and tests subsystems which are highly specialized and tailored to specific steps in the semiconductor manufacturing process as well as the manufacturing processes in Other Addressed Industries. Revenue is derived from the sale of gas delivery systems and other critical subsystems including chemical mechanical planarization (CMP) subsystems, chemical delivery modules, top-plate assemblies, frame assemblies, process modules and other high level assemblies.

The Company's customers are primarily original equipment manufacturers (OEMs) in industries it supports, providing customers complete subsystem solutions that combine the Company's expertise in design, test, component characterization and highly flexible manufacturing operations with quality control and financial stability. This combination helps the Company to drive down total manufacturing costs, reduce design-to-delivery cycle times and maintain high quality standards for the Company's customers. The Company believes these characteristics, as well as the Company's standing as a leading supplier of gas delivery systems and other critical subsystems, place the Company in a strong position to benefit from the demand for subsystem outsourcing.

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

*Foreign Currency Translation* The Company has reviewed its non-U.S. subsidiaries (of which all of its non-U.S. asset base resides in Asia) that operate in a local currency environment to determine their functional currency by examining how and in what currency each subsidiary generates cash through billings and cash receipts and how and in what currency the subsidiary expends cash through payment of its vendors and payment of its workforce. Also, these subsidiaries' individual assets and liabilities that are primarily denominated in the local foreign currency are examined for their impact on the Company's cash flows. All have been determined to have the U.S. dollar as its functional currency. All balance sheet accounts of these local functional currency subsidiaries are translated at the fiscal period-end exchange rate, and income and expense accounts are translated using average rates in effect for the period, except for costs related to those balance sheet items that are translated using historical exchange rates. Foreign currency transaction gains and losses are recorded in other income (expense), net.

In July 2012, the Company completed its acquisition of American Integration Technologies LLC (AIT). Beginning in the third quarter of fiscal 2012, the acquired business is included in the Company's consolidated results of operations.

*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. 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.

**Table of Contents****Ultra Clean Holdings, Inc.****Notes to Consolidated Financial Statements (Continued)**

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

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

*Significant sales to customers* The Company's most significant customers (having accounted for 10% or more of annual sales) and their related sales as a percentage of total sales for each of the previous three years, were as follows:

	Fiscal Year Ended		
	2012	2011	2010
Applied Materials, Inc. (1)	38%	40%	40%
Lam Research Corporation (2)	33%	31%	36%
<b>Total</b>	<b>71%</b>	<b>71%</b>	<b>76%</b>

- (1) In November 2011, Applied Materials Inc. completed the acquisition of Varian Semiconductor Equipment Associates, Inc., one of the Company's customers. The sales percentages for Applied Materials, Inc. for 2011 and 2010 include sales to Varian Semiconductor Equipment Associates, Inc. The sales percentages for Applied Materials, Inc. for all periods presented have been updated to reflect the inclusion of sales to Varian Semiconductor Equipment Associates, Inc., for comparison purposes.
- (2) In June 2012, Lam Research Corporation completed the acquisition of Novellus Systems, Inc., one of the Company's customers. The sales percentages for Lam Research Corporation for 2012, 2011 and 2010 include sales to Novellus Systems, Inc. The sales percentages for Lam Research Corporation for all periods presented have been updated to reflect the inclusion of sales to Novellus Systems, Inc., for comparison purposes.

Three customers' accounts receivable balances- Applied Materials, Inc., Lam Research Corporation and ASM International- were individually greater than 10% of accounts receivable as of December 28, 2012 and, in the aggregate, represented approximately 84% of accounts receivable. Two customers' accounts receivable balances- Applied Materials, Inc. and Lam Research Corporation- were individually greater than 10% of accounts receivable at December 30, 2011 and, in the aggregate, represented approximately 72% of accounts receivable.

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



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**Ultra Clean Holdings, Inc.**

**Notes to Consolidated Financial Statements (Continued)**

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

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

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

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

The Company's only financial asset measured at fair value on a recurring basis is an overnight sweep account invested in money market funds which are cash and cash equivalents which are defined as securities for which maturities at day of purchase is less than 90 days and with a carrying value and fair value of \$24.0 million at December 28, 2012, based on Level 2 inputs. The Company's only financial liability measured at fair value is the Company's credit facility. Specifically, 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 and the Company's outstanding borrowings under the Company's revolving credit facility were 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.

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

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

At December 28, 2012 and December 30, 2011, inventory balances were \$54.0 million and \$55.5 million, respectively, net of reserves of \$6.2 million and \$3.9 million, respectively. The inventory write-downs are recorded as an inventory valuation allowance established on the basis of obsolete inventory or specific identified inventory in excess of estimated usage. Inventory write-downs were \$1.2 million, \$1.4 million and \$1.4 million in the years ended December 28, 2012, December 30, 2011 and December 31, 2010, respectively.

*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 a 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

**Table of Contents****Ultra Clean Holdings, Inc.****Notes to Consolidated Financial Statements (Continued)**

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 consolidated balance sheet. Product warranty cost activity consisted of the following (in thousands):

	December 28, 2012	Year Ended December 30, 2011	December 31, 2010
Beginning Balance	\$ 350	\$ 204	\$ 112
Additions related to sales	47	726	451
Warranty costs incurred	(245)	(580)	(359)
Ending Balance	\$ 152	\$ 350	\$ 204

*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. A valuation allowance is recorded when it is more likely than not that some of the deferred tax assets will not be realized.

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 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, assumes it will be able to generate sufficient future income to fully realize these deductions. In determining whether the realization of these deferred tax assets may be impaired, the Company makes judgments with respect to whether it is likely to generate sufficient future taxable income to realize these assets. The Company has a valuation allowance on the deferred tax assets of one of its China subsidiaries in the amounts of \$851,000 and \$441,000 as of December 28, 2012 and December 30, 2011, respectively.

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.

*Revenue Recognition* Product revenue is generally recorded upon shipment. In arrangements which specify title transfer upon delivery, revenue is not recognized until the product is delivered. The Company recognizes revenue when persuasive evidence of an arrangement exists, shipment has occurred, price is fixed or determinable and collectability is reasonably assured. If the Company has not substantially completed a product or fulfilled the terms of a sales agreement at the time of shipment, revenue recognition is deferred until fulfillment. The Company's standard arrangement for its customers includes a signed purchase order or contract, no right of return of delivered products and no customer acceptance provisions.

The Company assesses collectability based on the credit worthiness of the customer and past transaction history. The Company performs on-going credit evaluations of customers and generally does not require collateral from customers.

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**Ultra Clean Holdings, Inc.**

**Notes to Consolidated Financial Statements (Continued)**

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

*Net Income (loss) per Share* Basic net income (loss) per share is computed by dividing net income (loss) by the weighted average number of shares outstanding for the period. Diluted net income (loss) per share is calculated by dividing net income (loss) 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 9 to Consolidated Financial Statements).

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

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

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

***Stock-based compensation and deferred stock-based compensation***

The Company maintains stock-based compensation plans which allow for the issuance of equity-based awards to executives and certain employees. These equity-based awards include stock options, restricted stock awards and restricted stock units. 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.

Stock-based compensation expense includes compensation costs related to estimated fair values of stock options and awards granted. Stock-based compensation expense from stock options and stock awards and the related income tax benefit recognized were \$5.1 million and \$1.2 million, respectively, for fiscal year 2012, \$4.4 million and \$1.0 million, respectively, for fiscal year 2011, and \$3.2 million and \$0.6 million, respectively, for fiscal year 2010.

The estimated fair value of the Company's equity-based awards, net of expected forfeitures, is amortized over the awards' vesting period on a straight-line basis over a weighted average period of four years for stock options three years for restricted stock awards and will be adjusted for subsequent changes in estimated forfeitures and future option grants.

On June 10, 2010, the stockholders of the Company approved amendments to the Company's 2003 Amended and Restated Stock Incentive Plan, which included: an increase in share authorization by 1,500,000 common shares and the elimination of the Company's ability to increase further the number of shares under the plan without stockholder approval. Changes to the 2003 Amended and Restated Stock Incentive Plan are more fully described in the Company's definitive proxy statement filed on April 23, 2010.

**Table of Contents****Ultra Clean Holdings, Inc.****Notes to Consolidated Financial Statements (Continued)*****Determining Fair Value***

*Valuation and amortization method.* The Company estimates the fair value of stock options granted using the Black-Scholes option valuation model and a single option award approach. All options are amortized over the requisite service periods of the awards, which are generally the vesting periods, and are amortized using the straight-line basis method.

*Expected term.* The expected term of options granted represents the period of time that they are expected to be outstanding. The Company estimates the expected term of options granted based on historical exercise patterns, which the Company believes are representative of future behavior.

*Expected volatility.* The Company estimates the volatility of its common stock in the Black-Scholes option valuation at the date of grant based on historical volatility rates over the expected term.

*Risk-free interest rate.* The Company bases the risk-free interest rate in the Black-Scholes option valuation model on the implied yield in effect at the time of option grant on U.S. Treasury zero-coupon issues with equivalent remaining term.

*Dividend yield.* The Company has never paid any cash dividends on its common stock and does not anticipate paying any cash dividends in the foreseeable future. Consequently, the Company uses an expected dividend yield of 0.0% in the Black-Scholes option valuation model.

*Forfeiture rate.* The FASB's guidance regarding stock-based compensation requires the Company to estimate forfeitures at the time of grant and revise those estimates in subsequent periods if actual forfeitures differ from those estimates.

The exercise price of each stock option equals the market price of the Company's stock on the date of grant. The weighted average estimated fair value of employee stock option grants for the 2010 was \$6.42. There were no employee stock option grants by the Company for years 2011 and 2012. Generally, options vest over four years and expire no later than ten years from the grant date. The weighted average assumptions used in the model for 2010 are outlined in the following table:

	<b>December 31, 2010</b>
Dividend yield	0.0%
Expected volatility	75.0%
Risk-free interest rate	1.9%
Expected life (in years)	5.5

During fiscal years 2012, 2011 and 2010, the Company recorded \$3.9 million, \$3.4 million and \$2.6 million, respectively, of stock-based compensation expense, net of tax, associated with employee and director stock plans and employee stock purchase plan programs. As of December 28, 2012, there was \$5.7 million, net of forfeitures of \$1.0 million, of unrecognized compensation cost related to employee and director stock which is expected to be recognized on a straight-line basis over a weighted average period of approximately 1.6 years, and will be adjusted for subsequent changes in estimated forfeitures and future grants.

**Table of Contents****Ultra Clean Holdings, Inc.****Notes to Consolidated Financial Statements (Continued)**

Total stock-based compensation during the fiscal years 2012, 2011 and 2010, respectively, to various operating expense categories was as follows (in thousands):

	December 28, 2012	Year Ended December 30, 2011	December 31, 2010
Cost of goods sold (1)	\$ 1,263	\$ 1,397	\$ 809
Sales and marketing	475	380	414
Research and development	339	325	255
General and administrative	2,992	2,257	1,718
	5,069	4,359	3,196
Income tax benefit	(1,171)	(1,046)	(607)
Net stock-based compensation expense	\$ 3,898	\$ 3,313	\$ 2,589

- (1) There are no stock-based compensation expenses capitalized in inventory for fiscal years 2011 and 2010. At the end of fiscal 2012, the Company began including stock compensation as a component of the absorption calculation for inventory. Such amount capitalized to inventory in 2012 was immaterial.

**Intangible Assets**

Goodwill and indefinite-lived intangible assets are not amortized, but are reviewed for impairment annually during the fourth quarter of each fiscal year. Purchased intangible assets are presented at cost, net of accumulated amortization, and are amortized on either a straight-line method or on an accelerated method over their estimated future discounted cash flows. The Company accounts for intangible assets in accordance with ASC 360. The Company reviews goodwill and purchased intangible assets with indefinite lives for impairment annually and whenever events or changes in circumstances indicate the carrying value of an asset may not be recoverable, such as when reductions in demand or significant economic slowdowns in the semiconductor industry are present.

Intangible assets reviews are performed to determine whether the carrying value is impaired, based on comparisons to undiscounted expected future cash flows. If this comparison indicates that there is impairment, the impaired asset is written down to fair value, which is typically calculated using: (i) quoted market prices or (ii) discounted expected future cash flows utilizing a discount rate. See Note 4 for further discussion.

Goodwill is recorded as the difference, if any, between the aggregate consideration paid for an acquisition and the fair value of the net tangible and intangible assets acquired. In accordance with ASC No. 350, *Intangibles-Goodwill and Other*, (ASC 350), the Company tests goodwill for impairment at the reporting unit level (operating segment or one level below an operating segment) on an annual basis in the fourth quarter of each fiscal year or more frequently if the Company believes indicators of impairment exist. The performance of the test involves a two-step process. The first step of the impairment test involves comparing the fair values of the applicable reporting units with their aggregate carrying values, including goodwill. The Company generally determines the fair value of the Company's reporting units using the income approach methodology of valuation that includes the discounted cash flow method as well as other generally accepted valuation methodologies. If the carrying amount of a reporting unit exceeds the reporting unit's fair value, the Company performs the second step of the goodwill impairment test to determine the amount of impairment loss. The second step of the goodwill impairment test involves comparing the implied fair value of the affected reporting unit's goodwill with the carrying value of that goodwill. The Company would then record a charge based on the results of the second step.



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**Ultra Clean Holdings, Inc.**

**Notes to Consolidated Financial Statements (Continued)**

***Long-lived Assets***

The Company evaluates long-lived assets for impairment whenever events or changes in circumstances indicate the carrying value of an asset group may not be recoverable. The Company assesses the fair value of the assets based on the amount of the undiscounted future cash flows that the assets are expected to generate and recognizes an impairment loss when estimated undiscounted future cash flow expected to result from the use of the asset are less than the carrying value of the asset. If the Company identifies an impairment, the Company reduces the carrying value of the group of assets to comparable market values, when available and appropriate, or to its estimated fair value based on a discounted cash flow approach.

At the end of fiscal years 2012 and 2011 the Company assessed the useful lives of its long-lived assets, including property, plant and equipment as well as its intangible assets and concluded that no impairment was required.

***Recently Issued Accounting Standards***

***Recently Issued Accounting Standards*** In July 2012, the Financial Accounting Standards Board amended its existing guidance for goodwill and other intangible assets. This authoritative guidance gives companies the option to first perform a qualitative assessment to determine whether it is more likely than not that an indefinite-lived intangible asset is impaired. To perform a qualitative assessment, a company must identify and evaluate changes in economic, industry and company-specific events and circumstances that could affect the significant inputs used to determine the fair value of an indefinite-lived intangible asset. If a company determines that it is more likely than not that the fair value of such an asset exceeds its carrying amount, it would not need to calculate the fair value of the asset in that year. This authoritative guidance becomes effective for the Company in the first quarter of fiscal 2013, with early adoption permitted. The implementation of this authoritative guidance is not expected to have a material impact on the Company's financial position or results of operations.

In September 2011, the FASB approved a revised accounting standard update intended to simplify how an entity tests goodwill for impairment. The amendment allows an entity to first assess qualitative factors to determine whether it is necessary to perform the two-step quantitative goodwill impairment test. An entity no longer will be required to calculate the fair value of a reporting unit unless the entity determines, based on a qualitative assessment, that it is more-likely-than-not that its fair value is less than its carrying amount. The adoption of this accounting standard update in fiscal year 2012 did not have any impact on the Company's consolidated financial statements.

In June 2011, the FASB issued authoritative guidance on the presentation of comprehensive income to require an entity to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. This authoritative guidance eliminates the option to present the components of other comprehensive income as part of the statement of equity. In December 2011, the requirement regarding the presentation of reclassification adjustments out of accumulated other comprehensive income was deferred indefinitely. The new guidance, except for the provision deferred, was effective for the Company in the first quarter of fiscal 2012 and had no impact on the Company's financial position or results of operations.

In May 2011, the FASB issued authoritative guidance to provide a consistent definition of fair value and ensure that the fair value measurement and disclosure requirements are similar between U.S. accounting principals generally accepted in the United States of America and International Financial Reporting Standards. This authoritative guidance limits the highest-and-best-use measure to nonfinancial assets, permits certain financial assets and liabilities with offsetting positions in market or counterparty credit risks to be measured at a

**Table of Contents****Ultra Clean Holdings, Inc.****Notes to Consolidated Financial Statements (Continued)**

net basis, and provides guidance on the applicability of premiums and discounts. This authoritative guidance also expands the disclosures on Level 3 inputs by requiring quantitative disclosure of the unobservable inputs and assumptions, as well as description of the valuation processes and the sensitivity of the fair value to changes in unobservable inputs. As a result of this new guidance, we disclosed the level of the fair value hierarchy within which the fair value measurements of assets and liabilities disclosed but not recorded at fair value were categorized (see Note 1). Other items in this new guidance had no impact to the Company's consolidated financial statements.

**2. Balance Sheet Information**

Inventory consisted of the following (in thousands):

	December 28, 2012	December 30, 2011
Raw materials	\$ 47,825	\$ 42,976
Work in process	9,994	12,953
Finished goods	2,349	3,486
	60,168	59,415
Reserve for excess and obsolete	(6,203)	(3,942)
Net	\$ 53,965	\$ 55,473

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

	December 28, 2012	December 30, 2011
Computer equipment and software	\$ 8,148	\$ 7,089
Furniture and fixtures	1,682	1,761
Machinery and equipment	8,597	9,282
Leasehold improvements	10,092	10,860
	28,519	28,992
Accumulated depreciation and amortization	(19,237)	(18,983)
Total	\$ 9,282	\$ 10,009

**3. Acquisition**

On July 3, 2012, the Company completed the acquisition of American Integration Technologies LLC (AIT), a supplier of critical subsystems to the semiconductor capital equipment, medical, energy, industrial and aerospace industries, for approximately \$75.3 million in cash and 4.5 million shares of newly issued common stock valued at \$29.6 million for a total purchase price of \$104.9 million. The acquisition serves to increase the Company's competitive position and market share, as it resulted in an expansion and diversification of the Company's customer base and product and service portfolio. By acquiring AIT's complementary product and service portfolio and well established customers, the Company will be able to immediately go to market with a more complete and integrated solution. The Company financed the cash portion of the merger, and repaid existing indebtedness, by borrowing a total of \$79.8 million under a new senior secured credit facility, of which \$40.0 million represents borrowings under a term loan and \$39.8 million represents borrowings under a revolving credit facility. See further discussion of the



new borrowing arrangements in Note 5. Borrowing Arrangements in Notes to Consolidated Financial Statements.

**Table of Contents****Ultra Clean Holdings, Inc.****Notes to Consolidated Financial Statements (Continued)**

The Company preliminarily allocated the purchase price of AIT to tangible assets, liabilities and identifiable intangible assets acquired, based on their estimated fair values. Accounts receivable, net of allowance for doubtful accounts and other current assets and liabilities were stated at their historical carrying values, which approximate fair value given the short-term nature of these assets and liabilities. The fair value of the inventory was derived from model-based valuations for which all significant inputs and value drivers are observable directly or indirectly ( Level 2 inputs ). The fair value of fixed assets was determined using market data for similar assets. The fair value of the non-financial assets, summarized below, were derived from significant unobservable inputs ( Level 3 inputs ) determined by management based on market analysis, income analysis and discounted cash flow model. The fair value of fixed assets was determined using market data for similar assets. The fair value of purchased identifiable intangible assets was determined using the Company's discounted cash flow models from income projections prepared by management, using weighted average cost of capital plus a 1.4% premium.

The excess of purchase price over the aggregate fair values was recorded as goodwill. Although goodwill is not amortized for financial accounting purposes, it is amortized for tax purposes over fifteen years. The Company determined the preliminary fair values assigned to identifiable intangible assets acquired based on its 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. In determining the fair value of the identifiable intangible assets, the Company considered, among other factors, the best use of acquired assets, analyses of historical financial performance and estimates of future performance of AIT's products. The fair values of identifiable intangible assets were calculated considering market participant expectations and using an income approach. The rates utilized to discount estimated net cash flows to their present values were based on a weighted average cost of capital of 12.5% and a long term growth rate of 4%. This discount rate was determined after consideration of the rate of return on debt capital and equity that typical investors would require from an investment in companies similar in size and operating in similar markets as AIT. The estimated fair value of the tangible and intangible assets acquired was allocated at AIT's acquisition date. The primary areas of the preliminary purchase price allocation that are not yet finalized relate to the fair values of inventory, non-income based taxes and residual goodwill. During the measurement period, which can be no more than one year from the date of acquisition, we expect to continue to obtain information to assist us in determining the final fair value of the net assets acquired at the acquisition date during the measurement period. The preliminary purchase price for the acquisition is allocated as follows:

<b>Fair Market Values (\$000 s)</b>	
Cash and cash equivalents	\$ 380
Accounts receivable, net	16,959
Inventories	22,774
Other current assets	381
Property and equipment, net	1,880
Goodwill	56,662
Purchased intangible assets	22,500
Total assets acquired	121,536
Accounts payable and accrued expenses	(13,807)
Other liabilities	(2,839)
Total liabilities assumed	(16,646)
Purchase price allocated	\$ 104,890

**Table of Contents****Ultra Clean Holdings, Inc.****Notes to Consolidated Financial Statements (Continued)**

Details of purchased intangible assets as of December 28, 2012 are as follows:

		(in \$000 s)		(in years)
	Purchased Intangible Assets	Accumulated Amortization	Carrying Value	Estimated Useful Life
Customer relationships	\$ 19,000	\$ (3,449)	\$ 15,551	7
Trade name (AIT)	1,900	(223)	1,677	6
Intellectual property/know-how	1,600	(114)	1,486	7
Tradenames (UCT)	8,987		8,987	*
<b>Total</b>	<b>\$ 31,487</b>	<b>\$ (3,786)</b>	<b>\$ 27,701</b>	

\* The UCT tradename was determined to have an indefinite life and is therefore amortized.

Goodwill is not amortized but is tested for impairment at least annually and whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. See Note 4. Goodwill and Purchased Intangible Assets in Notes to Consolidated Financial Statements for the results of the goodwill impairment testing.

The results of operations of AIT are included in the Company's consolidated results of operations beginning in the third quarter of fiscal 2012. For the six months ended December 28, 2012, net sales of approximately \$63.8 million and net income of approximately \$6.8 million attributable to AIT were included in the consolidated results of operations. An accelerated method of amortization is used for the Customer Relationships intangible asset based on the expected pattern of future benefits. For the Tradename and Intellectual Property Know-how intangible assets a straight-line amortization method is used.

The following unaudited pro forma consolidated results of operations assume the acquisition was completed as of December 31, 2010. The unaudited pro forma consolidated results of operations combine the results of Ultra Clean and AIT for the years 2012 and 2011.

	2012	2011
	(In thousands, except per share amounts)	
Net sales	\$ 470,275	\$ 622,537
Net income	\$ 9,305	\$ 28,234
Basic earnings per share	\$ 0.34	\$ 1.04
Diluted earnings per share	\$ 0.33	\$ 1.01

The unaudited pro forma results above include adjustments related to the purchase price allocation and financing of the acquisition, primarily to increase amortization for the identifiable intangible assets, to increase interest expense for the additional debt incurred to complete the acquisition, to reflect the related income tax effect and to adjust weighted shares issued as part of the acquisition. The pro forma results for the twelve months ended December 30, 2011 include acquisition costs of \$2.4 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 consolidated financial position or results of income in future periods or the results that actually would have been realized had Ultra Clean and AIT 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.



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**Table of Contents****Ultra Clean Holdings, Inc.****Notes to Consolidated Financial Statements (Continued)**

Goodwill associated with the acquisition is primarily attributable to the expected synergies and other benefits that the Company believes will result from combining the operations of the Company and AIT. The acquisition serves to increase the Company's competitive position and market share, as it resulted in an expansion and diversification of the Company's customer base and product and service portfolio. By acquiring AIT's complementary product and service portfolio and well established customers, the Company was able to immediately go to market with a more complete and integrated solution.

The Company has evaluated and continues to evaluate pre-acquisition contingencies relating to AIT that existed as of the acquisition date. The Company has determined that certain of these pre-acquisition contingencies, primarily related to sales and use tax positions assumed from AIT, are not estimable as of the acquisition date and, accordingly, the Company has not recorded any estimates for these contingencies as a part of the purchase price allocation for AIT. The Company continues to gather information for and evaluate these pre-acquisition contingencies. If the Company determines that amounts need to be recorded or identify additional pre-acquisition contingencies during the remainder of the measurement period, such amounts recorded will be included in the purchase price allocation during the measurement period and, if beyond the measurement period, in the Company's results of operations.

**4. Goodwill, Other Intangible Assets and Long-lived 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 process of evaluating the potential impairment of goodwill and intangible assets requires significant judgment. 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.

As part of the Company's annual testing of goodwill impairment, in the fourth quarter of fiscal 2012 the Company performed the two-step impairment test of AIT's two reporting units for potential impairment. The Company utilized the discounted cash flow method of the income approach to estimate the fair values of each of the reporting units. The estimates used in the impairment testing were consistent with the discrete forecasts that the Company uses to manage its business, and, additionally, considered the developments that occurred during the six months since the date of the acquisition. Under the discounted cash flow method, cash flows beyond the discrete forecasts were estimated using a terminal growth rate of 4.0%, which is considered to be the long-term earnings growth rate specific to the AIT reporting units. The estimated future cash flows were discounted to present value using a discount rate of 15% that was the value-weighted average of the reporting unit's estimated cost of equity and debt derived using both known and estimated market metrics, and was adjusted to reflect risk factors that considered both the timing and risks associated with the estimated cash flows. The tax rate used in the discounted cash flow method reflected the international structure currently in place, which is consistent with the market participant perspective. The Company then allocated the fair values of the reporting units to the assets and liabilities of each of the reporting units. Based on the Company's analyses, the Company concluded that the fair value of the reporting units was greater than their carrying amounts, including goodwill. The estimated fair value for AIT as of December 28, 2012, was \$108.4 million, an increase of \$3.5 million, or 3.3%, over the estimated fair value of \$104.9 million of AIT as of the date of the acquisition. The primary reasons for the increase in fair value as of December 28, 2012 from the date of acquisition are due to changes in the forecasted cost structures of each of the operating units as a result of workforce and operating-related synergies already in process as well as anticipated in the future. Goodwill allocated to AIT's reporting unit A was \$28.3 million. The

**Table of Contents****Ultra Clean Holdings, Inc.****Notes to Consolidated Financial Statements (Continued)**

fair value over the carrying value of AIT's reporting unit A was 2.1% as of December 28, 2012. Goodwill allocated to AIT's reporting unit B was \$28.4 million and the percent fair value over the carrying value of reporting unit B was 4.8% as of December 28, 2012.

The fair values for each of the operating units as of December 28, 2012, were determined to be higher than the fair values assigned to these operating units at the time of the acquisition. As a result, the Company determined that there was no impairment of goodwill.

Details of goodwill from inception of the Company through December 28, 2012 are as follows (in \$000 s):

	<b>Gross Amount</b>	<b>Accumulated Impairment</b>	<b>Net Carrying Amount</b>
<b>Year Ended December 28, 2012</b>			
Goodwill	\$ 90,705	\$ (34,043)	\$ 56,662
<b>Year Ended December 30, 2011</b>			
Goodwill*	\$ 34,043	\$ (34,043)	\$

\* represents aggregate goodwill recorded for the UCT acquisition in 2002 and for Sieger Engineering LLC acquisition in 2006. Details of goodwill and other intangible assets were as follows (in \$000 s):

	<b>December 28, 2012</b>			<b>December 30, 2011</b>		
	<b>Goodwill</b>	<b>Intangible Assets</b>	<b>Total</b>	<b>Goodwill</b>	<b>Intangible Assets</b>	<b>Total</b>
Carrying amount	\$ 56,662	\$ 27,701	\$ 84,364	\$	\$ 8,987	\$ 8,987
<b><i>Purchased Intangible Assets</i></b>						

Intangible assets are generally recorded in connection with a business acquisition. The value assigned to the intangible assets purchased as part of the acquisition of AIT was based on estimates and judgments regarding expectations for the success and life cycle of intellectual property/know-how acquired, tradename recognition and developed customer relationships. 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 intangible assets for impairment when events or changes in circumstances indicate their carrying value may not be recoverable. Management considers such indicators as significant differences in actual product acceptance from the estimates, changes in the competitive and economic environment, technological advances, and changes in cost structure.

Details of purchased intangible assets with finite lives were as follows as of December 28, 2012:

	<b>Useful Life (in years)</b>	<b>Purchased Intangible Assets (in \$ 000 s)</b>
Customer relationships	7	\$ 19,000
Trade-name	6	1,900
Intellectual Property/Know-How	7	1,600

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Total purchased intangible assets	22,500
Accumulated amortization	(3,786)
Carrying amount	\$ 18,714

**Table of Contents****Ultra Clean Holdings, Inc.****Notes to Consolidated Financial Statements (Continued)**

The Company amortizes its customer relationships intangible asset using an accelerated method over the estimated economic life of the asset, or 7 years. The company amortizes its trade-name and intellectual property/know-how intangible assets on a straight-line basis ranging from six to seven years. Amortization expense was approximately \$3.8 million for the six months ended December 28, 2012. The Company had no amortization in 2010, 2011 and for the first six months of 2012.

As of December 28, 2012, future estimated amortization expense is expected to be as follows:

	<b>Amortization Expense (in \$000 s)</b>
2013	\$ 5,993
2014	4,884
2015	2,813
2016	2,293
2017	1,386
2018	848
2019	497
Total	\$ 18,714

In addition to the AIT tradename intangible of \$1.9 million, which the Company concluded has a definite life of six years, the Company is also carrying a UCT trade-name intangible asset of \$9.0 million as a result of a previous acquisition. The Company concluded that the UCT trade-name intangible asset life is indefinite and is therefore not amortized. The Company tested the UCT trade-name for impairment as of December 28, 2012, using the applied relief-from-royalty method under the income approach and concluded that the trade-name was not impaired.

**5. Borrowing Arrangements**

On July 3, 2012, in connection with the Company's acquisition of AIT and the refinancing of its prior credit facility, the Company entered into a credit agreement (the "Credit Agreement") by and among the Company, certain of its subsidiaries, Silicon Valley Bank, U.S. Bank National Association and HSBC Bank (collectively, the "Lenders"). The Credit Agreement provides for a term loan in an aggregate principal amount of \$40.0 million (the "Term Loan") and a revolving credit facility in an aggregate principal amount of \$40.0 million (the "Revolving Credit Facility"), a letter of credit facility in the aggregate availability amount of \$15.0 million (as a sublimit of such Revolving Credit Facility) (the "L/C Facility") and a swingline sub-facility in the aggregate availability amount of \$4.0 million (as a sublimit of the Revolving Credit Facility) (together with the Term Loan, the Revolving Credit Facility and the L/C Facility, the "Credit Facility"). On July 3, 2012, the Company borrowed an aggregate of \$40.0 million under the Term Loan and approximately \$39.8 million under the Revolving Credit Facility. The borrowed funds were used at the closing of the Company's acquisition of AIT to finance the acquisition and repay the outstanding balance of \$3.7 million to Silicon Valley Bank as lender under the Company's prior credit facility. The prior credit facility was terminated in connection with this transaction.

The Credit Facility must be repaid in consecutive quarterly installments of \$2.5 million, with the first payment due on September 30, 2012, and with the balance of the then-outstanding principal amount due at the final maturity, which is July 3, 2016. The Revolving Credit Facility is available for the four-year period beginning on July 3, 2012. 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 of these entities (subject to certain exceptions and limitations).





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**Ultra Clean Holdings, Inc.**

**Notes to Consolidated Financial Statements (Continued)**

At the Company's option, borrowings under the Term Loan and 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 July 3, 2012 were initially base rate loans, carrying interest of 3.75%. The Company expects, however, that the effective interest rate will be higher due to the incurrence of certain loan-related costs of approximately \$1.9 million that will be treated as deferred interest and amortized over the life of the loan.

The Credit Agreement requires us to maintain certain financial covenants including a minimum consolidated fixed charge coverage ratio, a maximum consolidated leverage ratio and minimum domestic cash balances. For the measurement periods ending in November and December of 2012, the Company was not in compliance with such covenants. On February 15, 2013, the Company and the Lenders amended the Credit Agreement in order for the lenders to waive such non-compliance and to modify the financial covenants contained in the Credit Agreement, effective January 30, 2013. The Credit Agreement, as amended, requires the Company to comply with the following financial covenants:

a minimum consolidated fixed charge coverage ratio (as defined in the Credit Agreement, as amended), measured over the preceding four fiscal quarters, beginning as of the end of the third quarter of fiscal 2014, of 1.10 to 1.00, increasing to 1.25 to 1.00 as of the end of each fiscal quarter beginning with the first quarter of fiscal 2015 and thereafter;

a maximum consolidated leverage ratio (as defined in the Credit Agreement, as amended) measured over the preceding four fiscal quarters, beginning, as of the end of the third quarter of fiscal 2014, of 4.00 to 1.00, stepping down to 3.75 to 1.00 as of the end of the fourth quarter of fiscal 2014 and thereafter to and including the third quarter of 2015, and 3.25 to 1.00 as of the end of each fiscal quarter beginning with the fourth quarter of 2015 and thereafter;

minimum domestic cash of \$15.0 million as of the last day of any fiscal quarter and \$10.0 million as of the last day of any other fiscal month from January 25, 2013 and thereafter;

a minimum consolidated quick ratio (as defined in the Credit Agreement, as amended) of 1.10 to 1.00 as of the end of each fiscal month from January 25, 2013 and thereafter;

minimum consolidated adjusted EBITDA (as defined in the Credit Agreement, as amended), measured over the preceding two quarters, of \$3.5 million as of the end of the fourth quarter of 2012, \$2.5 million as of the end of the first quarter of 2013, \$3.0 million as of the end of the second quarter of 2013, \$4.0 million as of the end of the third quarter of 2013, \$6.0 million as of the end of the fourth quarter of 2013, \$7.0 million as of the end of the first quarter of 2014 and \$8.0 million as of the end of the second quarter of 2014 and each quarter thereafter.

The Credit Agreement contains provisions requiring the following mandatory prepayments (subject to certain exceptions and limitations): (i) prepayments equal to 50% of the net cash proceeds from the issuance of capital stock by the Company's primary operating subsidiary (or any of its subsidiaries); (ii) prepayments equal to 100% of the net cash proceeds from the incurrence of any indebtedness by the Company's primary operating subsidiary over \$250,000; (iii) prepayments equal to the net cash proceeds from certain asset sales or insurance or condemnation recoveries; and (iv) annual prepayments in an amount equal to (a) 33% of excess cash flow (as defined in the Credit Agreement, as amended) if the aggregate outstanding principal amount of the Term Loan equals or exceeds \$20.0 million and (b) 25% of excess cash flow if the aggregate outstanding principal amount of the Term Loan equals or exceeds \$10.0 million but is less than \$20.0 million.

The Credit Agreement also restricts the Company from declaring or paying any cash dividends.



**Table of Contents****Ultra Clean Holdings, Inc.****Notes to Consolidated Financial Statements (Continued)**

As of December 28, 2012, the Company's term loan and revolver balances were \$36.7 million and \$38.9 million, respectively, which are net of debt issuance costs of \$878,000 and \$826,000, respectively for a total debt balance of \$75.6 million. The Company analyzed the Credit Agreement and determined that the outstanding balance of revolver debt should be classified as short-term due to acceleration clauses in the agreement.

**6. Income Taxes**

U.S. and foreign components of income (loss) before income taxes were (in thousands):

	December 28, 2012	Year Ended December 30, 2011	December 31, 2010
U.S. operations	\$ (5,546)	\$ 4,839	\$ 14,585
Foreign operations	12,243	17,601	10,225
<b>Total pretax income</b>	<b>\$ 6,697</b>	<b>\$ 22,440</b>	<b>\$ 24,810</b>

The provision for taxes on income consisted of the following (in thousands):

	December 28, 2012	Year Ended December 30, 2011	December 31, 2010
<b>Current:</b>			
Federal	\$ 537	\$ 1,503	\$ 2,241
State	139	324	1,186
Foreign	3,608	3,157	1,766
<b>Total current</b>	<b>4,284</b>	<b>4,984</b>	<b>5,193</b>
<b>Deferred:</b>			
Federal	(2,141)	(4,257)	
State	(418)	(2,282)	
Foreign	(181)	261	(480)
<b>Total deferred</b>	<b>(2,740)</b>	<b>(6,278)</b>	<b>(480)</b>
<b>Total provision (benefit)</b>	<b>\$ 1,544</b>	<b>\$ (1,294)</b>	<b>\$ 4,713</b>

**Table of Contents****Ultra Clean Holdings, Inc.****Notes to Consolidated Financial Statements (Continued)**

Significant components of net deferred tax assets and deferred tax liabilities for federal and state income taxes were as follows (in thousands):

	December 28, 2012	December 30, 2011
Net current deferred tax asset (liability):		
Inventory valuation and basis difference	\$ 2,236	\$ 1,347
Other accrued expenses	804	742
State taxes	(119)	(77)
	2,921	2,012
Valuation allowance	(65)	(20)
Net current deferred tax asset	2,856	1,992
Net non-current deferred tax asset (liability):		
Deferred rent	5	8
Other accrued expenses	4,755	3,183
Depreciation	1,187	842
Net operating losses	2,271	1,853
State taxes	(798)	(699)
	7,420	5,187
Valuation allowance	(786)	(421)
Net non-current deferred tax asset:	6,634	4,766
Net deferred tax assets	\$ 9,490	\$ 6,758

The effective tax rate differs from the federal statutory tax rate as follows:

	December 28, 2012	Year Ended December 30, 2011	December 31, 2010
Federal income tax provision at statutory rate	34.0%	34.0%	34.0%
State income taxes, net of federal benefit	(2.8)%	0.8%	3.2%
Effect of foreign operations	(15.8)%	(11.4)%	(9.3)%
Valuation allowance	6.1%	(29.8)%	(5.0)%
Other	1.6%	0.6%	(3.9)%
Effective income tax rate	23.1%	(5.8)%	19.0%

The provision for the year ended December 28, 2012, includes an increase of \$0.4 million to the valuation allowance on the deferred tax assets of one of its China subsidiaries as a result of an increase in deferred tax assets for which there is a full valuation allowance. The provision for the year ended December 30, 2011, includes a partial release of valuation allowance of \$6.7 million (see discussion below). The provision for the year ended December 31, 2010, includes a reversal of \$0.9 million of previously established tax liability related to the Company's uncertain tax

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positions due to the finalization of the Company's tax returns for the period 2006 through 2009 by the Internal Revenue Service, and a partial release of valuation allowance of \$1.2 million (see discussion below).

Undistributed earnings of the Company's foreign subsidiaries at December 28, 2012 are considered to be indefinitely reinvested and no provision for U.S. income taxes has been provided thereon. Upon distribution of those earnings in the form of dividends or otherwise, the Company would be subject to U.S. income taxes. It is not practicable to determine the income tax liability that might be incurred if these earnings were to be distributed.

**Table of Contents****Ultra Clean Holdings, Inc.****Notes to Consolidated Financial Statements (Continued)**

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

Balance as of January 1, 2010	\$ 920
Increases related to prior year tax positions	2
Expiration of the statute of limitations for the assessment of taxes	(883)
Balance as of December 31, 2010	\$ 39
Increases related to prior year tax positions	108
Increases related to current year tax positions	24
Expiration of the statute of limitations for the assessment of taxes	(39)
Balance as of December 30, 2011	\$ 132
Increases related to prior year tax positions	0
Increases related to current year tax positions	13
Expiration of the statute of limitations for the assessment of taxes	(36)
Balance as of December 28, 2012	\$ 109

The Company's gross liability for unrecognized tax benefits as of December 28, 2012, December 30, 2011 and December 31, 2010 was \$109,000, \$132,000 and \$39,000, respectively. Increases or decreases to interest and penalties on uncertain tax positions are included in income tax provision (benefit) in the Consolidated Statements of Operations. Interest related to uncertain tax positions were \$8,000 for the periods ended December 28, 2012, \$10,000 for the periods ended December 30, 2011 and \$7,000 for the periods ended December 31, 2010. 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 our net deferred tax assets, which is made up primarily of tax deductions, assumes we will be able to generate sufficient future income to fully realize these deductions. In determining whether the realization of these deferred tax assets may be impaired, we make judgments with respect to whether we are 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 its results of operations and financial position.

As of December 28, 2012, the Company maintained a full valuation allowance on one of its China subsidiaries in the amount of \$0.9 million as the Company believes it is more likely than not that the deferred tax asset will not be realized. In order to reverse a valuation allowance, accounting principles generally accepted in the United States of America suggests that the Company review the cumulative income/loss in recent years as well as determine the Company's ability to generate sufficient future taxable income to realize the Company's net deferred tax assets. During the fourth quarter of fiscal 2011 the Company reversed all of the valuation allowance related to the Company's U.S. federal and state deferred tax assets in the amount of \$6.7 million as the Company determined that it was more likely than not that it would generate sufficient taxable income to realize its deferred tax assets.

The Company files income tax returns in the U.S. federal jurisdiction, various states and foreign jurisdictions. The Company's 2009 through 2011 federal income tax returns are open to audit through the statute of limitations by the Internal Revenue Service. The Company's 2008 through 2012 state income tax returns are open to audit by the California Franchise Tax Board. The Company is also subject to examination in various other jurisdictions for various periods. The Company's federal returns are still open for fiscal years 2004 through 2007 due to the carryback of losses.





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**Ultra Clean Holdings, Inc.**

**Notes to Consolidated Financial Statements (Continued)**

The Company is currently experiencing a tax holiday related to its Singapore subsidiary that will expire for tax years beginning January 2015. The Company's Singapore subsidiary recorded a net profit, considered insignificant by the Company, for the year ended December 28, 2012.

**7. Stockholders' Equity**

**Stock Repurchase Plan** On July 24, 2008, the Board of Directors approved a stock repurchase program for up to \$10.0 million. The Company commenced the repurchase of its common stock on August 4, 2008. The total number of shares repurchased and related cost of the stock repurchase program were 601,994 shares at a cost of \$3,337,000, or an average cost of \$5.54 per share. The Company did not repurchase stock during any of the fiscal years ended December 31, 2010, December 30, 2011 and December 28, 2012.

**8. Employee Benefit Plans**

**Stock Options** On February 20, 2003, the Company adopted the 2003 Stock Incentive Plan (the "2003 Incentive Plan") which was subsequently amended and restated. The Company has reserved 4,515,239 shares of its common stock for issuance under the 2003 Incentive Plan, as amended and restated. The 2003 Incentive Plan provides for the issuance of options and other stock-based awards. Options are generally granted at fair value at the date of grant as determined by the Board of Directors, have terms up to ten years and generally vest over four years. At December 28, 2012, 547,805 shares were available for future grants under the 2003 Incentive Plan.

On June 10, 2010, the stockholders of the Company approved amendments to the Company's 2003 Amended and Restated Stock Incentive Plan, which included: an increase in share authorization by 1,500,000 common shares; the elimination of the Company's ability to increase further the number of shares under the plan without stockholder approval; and makes certain other changes to the 2003 Amended and Restated Stock Incentive Plan, all of which are more fully described in the Company's definitive proxy statement filed on April 23, 2010.

**Table of Contents****Ultra Clean Holdings, Inc.****Notes to Consolidated Financial Statements (Continued)**

Option activity under the 2003 Incentive Plan is as follows:

	Shares	Weighted Average Exercise Price (In thousands)	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value
Outstanding, January 1, 2010	2,894,462	\$ 5.38	6.99	\$ 8,543
Granted	66,000	3.01		
Exercised	(646,671)	2.59		
Cancelled	(330,828)	6.32		
Outstanding, December 31, 2010	1,982,963	\$ 6.07	5.96	\$ 8,130
Granted				
Exercised	(269,017)	3.16		
Cancelled	(59,255)	6.07		
Outstanding, December 30, 2011	1,654,691	\$ 6.54	5.02	\$ 2,776
Granted	0	0		
Exercised	(127,904)	1.28		
Cancelled	(12,674)	7.55		
Outstanding, December 28, 2012	1,514,113	\$ 6.98	4.02	\$ 1,445
Options exercisable and expected to vest, December 28, 2012	1,512,816	\$ 6.98	4.02	\$ 1,442
Options exercisable, December 28, 2012	1,463,797	\$ 7.14	3.94	\$ 1,322

The following table summarizes information with respect to options outstanding and exercisable at December 28, 2012:

Range of Exercise Price	Shares Outstanding	Weighted Average Remaining Average Life (Years)	Weighted Average Exercise Price	Shares Exercisable	Weighted Average Exercise Price
\$1.00 1.17	384,210	5.82	\$ 1.12	353,624	\$ 1.12
\$2.93 6.43	126,710	5.83	4.34	108,126	4.41
\$6.55 6.55	388,323	2.36	6.55	388,323	6.55
\$6.61 12.38	319,720	2.90	8.47	318,574	8.47
\$12.99 14.90	295,150	4.30	14.68	295,150	14.68
Grand Total	1,514,113	4.02	\$ 6.98	1,463,797	\$ 7.14

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For the fiscal years 2012, 2011 and 2010, the intrinsic value of the Company's exercised stock options was \$0.7 million, \$2.2 million, and \$4.6 million, respectively. For the fiscal years 2012, 2011 and 2010, the Company's vested share recognized expense was \$0.2 million, \$0.3 million and \$2.2 million, respectively. As of December 28, 2012, \$0.1 million of unrecognized stock-based compensation cost, net of estimated forfeitures, related to options remains to be amortized and is expected to be recognized over an estimated period of 0.4 years.

*Restricted Stock Units and Restricted Stock Awards* In fiscal years 2012, 2011, and 2010, the Company granted 30,000, 37,500 and 30,000 shares, respectively, of common stock to its board members under the 2003 Incentive Plan. Restricted shares vest on the earlier of 1) the next Annual Shareholder Meeting, or 2) 365 days

**Table of Contents****Ultra Clean Holdings, Inc.****Notes to Consolidated Financial Statements (Continued)**

from date of grant. The total unamortized expense of the Company's unvested restricted stock awards as of December 28, 2012, is approximately \$0.1 million. During the first quarter of fiscal year 2008, the Company began granting Restricted Stock Units (RSU's) to employees as part of the Company's long term equity compensation plan. These RSU's are granted to employees with a per share or unit purchase price of zero dollars and either have time based or performance based vesting (PSU's). RSU's typically vest over three years, subject to the employee's continued service with the Company. The expected cost of the grant is recognized over the service period, and is reduced for estimated forfeitures. During the year ended December 28, 2012, the Company approved and granted 452,975 RSU's to employees with a weighted average fair value of \$8.01 per share and 110,375 PSU's with a weighted average fair value of \$8.73 per share. All of the PSU's granted in fiscal 2012 have been cancelled as none of the performance criteria for vesting was met. As of December 28, 2012, \$5.6 million of unrecognized stock-based compensation cost, net of estimated forfeitures, related to RSU's remains to be amortized and is expected to be recognized over an estimated period of 1.6 years. The unvested amount is subject to forfeiture, until fully vested. At December 28, 2012, 1,282,706 shares were subject to forfeiture.

The following table summarizes the Company's restricted stock unit and restricted stock award activity thru the year ended December 28, 2012:

	Number of Shares	Aggregate Intrinsic Value (000's)
Unvested restricted stock units and restricted stock awards at December 31, 2010	796,806	
Granted	794,550	
Vested	(317,763)	
Forfeited	(104,726)	
Unvested restricted stock units and restricted stock awards at December 30, 2011	1,168,867	
Granted	593,350	
Vested	(392,720)	
Forfeited	(56,791)	
Unvested restricted stock units and restricted stock awards at December 28, 2012	1,312,706	\$ 6,143
Vested and expected to vest restricted stock units and restricted stock awards	1,169,614	\$ 5,474

**Employee Stock Purchase Plan** In 2004 the Company adopted an Employee Stock Purchase Plan (ESPP) and is authorized to issue 555,343 shares of common stock under the ESPP. The ESPP permits employees to purchase common stock at a discount through payroll withholdings at certain specified dates (purchase period) within a defined offering period. The purchase price is 95% of the fair market value of the common stock at the end of the purchase period and is intended to qualify as an employee stock purchase plan under Section 423 of the Internal Revenue Code. There were 31,511 shares issued under the ESPP during the year ended December 28, 2012.

**Employee Savings and Retirement Plan** The Company sponsors a 401(k) savings and retirement plan (the 401(k) Plan) for all employees who meet certain eligibility requirements. Participants could elect to contribute to the 401(k) Plan, on a pre-tax basis, up to 25% of their salary to a maximum of \$16,500. The Company may make matching contributions of up to 3% of employee contributions based upon eligibility. The Company made approximately \$0.7 million, \$0.6 million, and \$0.6 million discretionary employer contributions to the 401(k) Plan in the years ended December 28, 2012, December 30, 2011 and December 31, 2010, respectively.



**Table of Contents****Ultra Clean Holdings, Inc.****Notes to Consolidated Financial Statements (Continued)****9. Net Income Per Share**

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

	December 28, 2012	Year Ended December 30, 2011	December 31, 2010
Numerator:			
Net income	\$ 5,153	\$ 23,734	\$ 20,097
Denominator:			
Shares used in computation basic:			
Weighted average common shares outstanding	25,698	22,689	21,799
Shares used in computation diluted:			
Weighted average common shares outstanding	25,698	22,689	21,799
Dilutive effect of common shares outstanding subject to repurchase	244	241	208
Dilutive effect of options outstanding	319	507	968
Shares used in computing diluted net income per share	26,261	23,437	22,975
Net income per share basic	\$ 0.20	\$ 1.05	\$ 0.92
Net income per share diluted	\$ 0.20	\$ 1.01	\$ 0.87

The Company had securities outstanding which could potentially dilute basic earnings 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 (loss) per share, as their effect would have been anti-dilutive. Such outstanding securities consist of the following (in thousands):

	December 28, 2012	Year Ended December 30, 2011	December 31, 2010
Outstanding options	1,514	1,655	1,983

**10. Segment Information**

The Company operates in one reportable segment and is engaged in the development, manufacture and supply of critical subsystems for the semiconductor capital equipment, flat panel, medical, energy and research industries. Multiple operating segments were aggregated into one reportable segment as the nature of the Company's products and production processes, as well as type of customers and distribution methods, is consistent among all of the Company's products. The Company's foreign operations are conducted primarily through its wholly-owned subsidiaries in China and Singapore. The Company's principal markets include North America, Asia and, to a lesser degree, Europe. Sales by geographic area represent sales to unaffiliated customers.

**Table of Contents****Ultra Clean Holdings, Inc.****Notes to Consolidated Financial Statements (Continued)**

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

	<b>December 28, 2012</b>	<b>Year Ended December 30, 2011</b>	<b>December 31, 2010</b>
<b>Sales</b>			
United States	\$ 313,758	\$ 357,306	\$ 399,830
China	24,664	23,564	20,424
Singapore	62,143	52,608	13,359
Other Asia	2,772	12,069	7,697
Europe	93	7,092	1,824
<b>Total</b>	<b>\$ 403,430</b>	<b>\$ 452,639</b>	<b>\$ 443,134</b>

At December 28, 2012 and December 30, 2011, approximately \$4.3 million and \$5.4 million, respectively, of the Company's long-lived assets were located in China and Singapore, and the remaining balances were located in the United States.

**11. Commitments and Contingencies**

The Company had commitments to purchase inventory totaling approximately \$25.2 million at December 28, 2012.

The Company also leases properties domestically in Hayward, California, Austin, Texas, Chandler, Arizona, and South San Francisco, CA and overseas in China, Singapore and the Philippines. The Company's total remaining future minimum lease payments as of December 28, 2012, over the remaining terms of these leases will be approximately \$24.2 million.

During the fourth quarter 2012 the Company amended its Hayward, California lease to extend the lease from 2015 to 2022.

The Company leases certain of its facilities under non-cancelable leases, which expire on various dates through 2022. As of December 29, 2012, future minimum payments under these operating leases were as follows (in thousands):

<b>Fiscal year</b>	
2013	\$ 3,928
2014	3,681
2015	3,241
2016	2,658
2017	2,129
Thereafter	8,571
<b>Total minimum lease payments</b>	<b>\$ 24,203</b>

**Table of Contents****Ultra Clean Holdings, Inc.****Notes to Consolidated Financial Statements (Continued)**

From time to time, we are subject to various legal proceedings and claims, either asserted or unasserted, that arise in the ordinary course of business. Although the outcome of the various legal proceedings and claims cannot be predicted with certainty, 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, results of operations or cash flows.

**12. Unaudited Quarterly Financial Results**

	First Quarter	Second Quarter as Previously Reported	Second Quarter Corrections	Second Quarter as Corrected	Third Quarter as Previously Reported	Third Quarter Corrections	Third Quarter as Corrected	Fourth Quarter	Fiscal Year
(In thousands, except per share data)									
<b>Fiscal Year 2012</b>									
Sales	\$ 110,565	\$ 101,949	\$	\$ 101,949	\$ 100,849	\$	\$ 100,849	\$ 90,067	\$ 403,430
Gross profit	15,660	14,254		14,254	14,323		14,323	11,551	55,788
Operating expenses	9,393	9,338	454(a)	9,792	15,750	(761)(a),(b)	14,989	12,655	47,136
Income from operations	6,267	4,916	(454)	4,462	(1,427)	761	(666)	(1,411)	8,345
Income tax provision (benefit)	1,502	979	679(c),(d)	1,658	(539)	184(d)	(356)	(398)	1,544
Net income (loss)	4,660	3,923	(1,133)	2,790	(1,701)	577	(1,124)	(1,729)	5,153
Earnings per share basic	0.20	0.17	(0.05)	0.12	(0.06)	0.02	(0.04)	(0.04)	0.20
Earnings per share diluted	0.20	0.17	(0.05)	0.12	(0.06)	0.02	(0.04)	(0.04)	0.20
	First Quarter	Second Quarter			Third Quarter			Fourth Quarter*	Fiscal Year*
<b>Fiscal Year 2011</b>									
Sales	\$ 126,719	\$ 133,741			\$ 105,306			\$ 86,873	\$ 452,639
Gross profit	17,552	18,993			12,852			9,595	58,992
Operating expenses	9,365	9,500			8,542			8,039	35,446
Income from operations	8,187	9,493			4,310			1,556	23,546
Income tax provision (benefit)	1,999	2,168			880			(6,341)	(1,294)
Net income (loss)	5,820	6,958			3,155			7,801	23,734
Earnings per share basic	0.26	0.31			0.14			0.34	1.05
Earnings per share diluted	0.25	0.30			0.14			0.34	1.01

\* Net income for the fourth quarter and fiscal year 2011 includes the effect of a \$6.7 million reversal of a deferred tax valuation allowance. In the above table, management has made certain corrections to amounts previously reported for the quarters ended June 29, 2012 and September 29, 2012. These corrections relate to:

- a) \$454,000 of costs associated with the acquisition of AIT that were capitalized at June 29, 2012 and expensed in the quarter ended September 29, 2012, which should have been expensed in the quarter ended June 29, 2012;





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**Ultra Clean Holdings, Inc.**

**Notes to Consolidated Financial Statements (Continued)**

- b) the reversal of \$307,000 of expense associated with performance equity awards that was recorded in the quarter ended December 28, 2012, but should have been recorded in the quarter ended September 29, 2012; and,
- c) foreign tax payments of \$770,000 that were recorded as a reduction of other current liabilities as of June 29, 2012 and September 28, 2012, and expensed in the quarter ended December 28, 2012, but should have been expensed in the quarter ended June 29, 2012.
- d) the tax effect of items a) and b) above.

The Company has concluded that, due to the nature of the affected expenses as described above, these corrections are not material to the interim financial statements for the three and six month periods ended June 29, 2012, and three and nine month periods ended September 29, 2012. The Company will record such corrections in its 2012 interim financial statements for the periods ended June 29, 2012 and September 29, 2012 to be included in its reports on Form 10-Q for the second and third quarters of fiscal 2013.

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### **Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure**

Not Applicable

### **Item 9A. Controls and Procedures**

#### ***Evaluation of Disclosure Controls and Procedures***

Our management, with the participation of our chief executive officer ( CEO ) and our chief financial officer ( CFO ), evaluated the effectiveness of our disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act as of December 28, 2012. Based upon the evaluation, our management, including our CEO and our CFO, concluded that the design and operation of our disclosure controls and procedures were effective to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act (i) is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms and (ii) is accumulated and communicated to our management, including our CEO and CFO, as appropriate to allow timely decisions regarding required disclosure.

#### ***Changes in Internal Control Over Financial Reporting***

As required by Rule 13a-15(d) of the Exchange Act, our management, including our CEO and CFO, conducted an evaluation of our internal control over financial reporting as defined in Exchange Act Rule 13a-15(f) to determine whether any changes in our internal control over financial reporting occurring during the fourth quarter of fiscal year 2012 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. Based on that evaluation, there have been no such changes during the fourth quarter of fiscal year 2012.

#### ***Management's Report on Internal Control Over Financial Reporting***

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined under Rule 13a-15(f) promulgated under the Exchange Act. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officers, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework set forth in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ( COSO ). Our assessment excluded internal control over financial reporting at American Integration Technologies LLC, which was acquired on July 3, 2012 and whose financial statements constitute 16% of the Company's consolidated revenue for the year ended December 28, 2012. We will include this acquired entity in our assessment of the effectiveness of internal controls over financial reporting in the fiscal year 2013 annual management report, the annual management report following the first anniversary of the acquisition. Based on our evaluation under the framework set forth in *Internal Control Integrated Framework*, our management concluded that our internal control over financial reporting was effective as of December 28, 2012.

The effectiveness of our internal control over financial reporting as of December 28, 2012 has been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in their report which appears in this Form 10-K.

#### ***Changes in Internal Control Over Financial Reporting***

There have been no changes in our internal controls over financial reporting during the last fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Stockholders of

Ultra Clean Holdings, Inc.

Hayward, California

We have audited the internal control over financial reporting of Ultra Clean Holdings, Inc. and subsidiaries (the Company) as of December 28, 2012, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. As described in Management's Annual Report on Internal Control over Financial Reporting, management excluded from its assessment the internal control over financial reporting at American Integration Technologies LLC (AIT), which was acquired on July 3, 2012, and whose financial statements constitute 16% of the Company's consolidated revenue for the year ended December 28, 2012. Accordingly, our audit did not include the internal control over financial reporting at AIT. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 28, 2012, based on the criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the year ended December 28, 2012 of the Company and our report dated March 13, 2013 expressed an unqualified opinion on those financial statements.

/s/ DELOITTE & TOUCHE LLP

San Jose, California

March 13, 2013



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**Item 9B. Other Information**

None.

**Table of Contents****PART III**

Pursuant to Paragraph G(3) of the General Instructions to Form 10-K, portions of the information required by Part III of Form 10-K are incorporated by reference from our definitive Proxy Statement to be filed with the SEC in connection with our 2013 Annual Meeting of Stockholders.

**Item 10. Directors and Executive Officers of the Registrant**

The information required by this item concerning directors, including our audit committee financial expert, is incorporated by reference to the section entitled, *Election of Directors* in our Proxy Statement for the 2013 Annual Meeting of Stockholders.

For information with respect to Executive Officers, see Part I, Item 1 of this Annual Report on Form 10-K, under *Executive Officers*.

The information required by this item with respect to Section 16(a) beneficial reporting compliance is incorporated by reference to the section entitled, *Section 16(a) Beneficial Ownership Reporting Compliance* in our Proxy Statement for the 2013 Annual Meeting of Stockholders.

We have adopted a code of ethics that is designed to qualify as a *code of ethics* within the meaning of Section 406 of the Sarbanes-Oxley Act of 2002 and the rules promulgated thereunder. This code of ethics is available on our website at *www.uct.com*. To the extent required by law, any amendments to, or waivers from, any provision of the code of ethics will be promptly disclosed to the public. To the extent permitted by such legal requirements, we intend to make such public disclosure by posting the relative material on our website in accordance with SEC rules.

**Item 11. Executive Compensation**

The information required by this item regarding the security ownership of certain beneficial owners is incorporated by reference to the sections entitled *Executive Officer Compensation* and *Election of Directors* in our Proxy Statement for the 2013 Annual Meeting of Stockholders.

**Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters**

The information required by this item is incorporated by reference to the sections entitled *Security Ownership of Certain Beneficial Owners and Management* in our Proxy Statement for the 2013 Annual Meeting of Stockholders.

The table below summarizes our equity plan information as of December 28, 2012:

Plan Category	(a) Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights	(b) Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights	(c) (1) Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a))
Equity compensation plans approved by security holders:	1,514,113	\$ 6.98	547,805
Equity compensation plans not approved by security holders			

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Total	1,514,113	\$	6.98	547,805
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(1) Consists of the Amended and Restated Stock Incentive Plan and, for purposes of column (c), the Employee Stock Purchase Plan.



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**Item 13. Certain Relationships and Related Transactions**

The information required by this item is incorporated by reference to the section entitled Certain Relationships and Related Party Transactions in our Proxy Statement for the 2013 Annual Meeting of Stockholders.

**Item 14. Principal Accountant Fees and Services**

The information required by this item is incorporated by reference to the section entitled Ratification of the Appointment of Our Independent Registered Public Accounting Firm in our Proxy Statement for the 2013 Annual Meeting of Stockholders.

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**Part IV**

**Item 15. Exhibits, Financial Statement Schedules**

(a) The following documents are filed as part of this Form 10-K:

1. Financial Statements:

	<b>Form 10-K Page No.</b>
<u>Report of Independent Registered Public Accounting Firm</u>	42
<u>Consolidated Balance Sheets</u>	43
<u>Consolidated Statements of Operations</u>	44
<u>Consolidated Statements of Stockholders' Equity</u>	45
<u>Consolidated Statements of Cash Flows</u>	46
<u>Notes to Consolidated Financial Statements</u>	47

2. Financial statement schedules not listed have been omitted because they are not applicable or required, or the information required to be set forth therein is included in the Consolidated Financial Statements or Notes thereto.

3. Exhibits

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**Exhibit Index**

2.1	Agreement and Plan of Merger dated as of October 30, 2002, among Ultra Clean Holdings, Inc., Ultra Clean Technology Systems and Service, Inc., Mitsubishi Corporation, Mitsubishi International Corporation and Clean Merger Company(a)
2.2	Agreement and Plan of Merger and Reorganization dated as of June 29, 2006 by and among Sieger Engineering, Inc., Leonid Mezhvinsky, Ultra Clean Holdings, Inc., Bob Acquisition Inc., Pete Acquisition LLC, Leonid and Inna Mezhvinsky as trustees of the Revocable Trust Agreement of Leonid Mezhvinsky and Inna Mezhvinsky dated April 26, Joe and Jenny Chen as trustees of the Joe Chen and Jenny Chen Revocable Trust dated 2002, Victor Mezhvinsky, Victor Mezhvinsky as trustee of the Joshua Mezhvinsky 2004 Irrevocable Trust under Agreement dated June 4, 2004, David Hongyu Wu and Winnie Wei Zhen Wu as trustees of the Chen Minors Irrevocable Trust, Frank Moreman and Leonid Mezhvinsky as Sellers Agent(g)
2.3	Agreement and Plan of Merger, dated as of May 18, 2012, among American Integration Technologies, LLC, AIT Holding Company LLC, Ultra Clean Holdings, Inc. and Element Merger Subsidiary, LLC(r)
3.1	Amended and Restated Certificate of Incorporation of Ultra Clean Holdings, Inc.(b)
3.2	Amended and Restated Bylaws of Ultra Clean Holdings, Inc.(i)
4.1	Amended and Restated Registration Rights Agreement dated as of June 29, 2006 among Ultra Clean, FP-Ultra Clean L.L.C. and the Sieger Shareholders(g)
4.2	Lock-Up and Standstill Agreement, dated July 3, 2012, among Ultra Clean Holdings, Inc., AIT Holding Company LLC, HLHZ AIT Holdings, L.L.C. and Houlihan Lokey, Inc.(s)
4.3	Registration Rights Agreement, dated July 3, 2012, among Ultra Clean Holdings, Inc. and AIT Holding Company LLC(s)
4.4	Specimen Stock Certificate(c)
10.1	Amended and Restated 2003 Stock Incentive Plan (Amended as of June 10, 2010)(d)
10.2	Form of Stock Option Agreement(c)
10.3	Credit Agreement, dated as of July 3, 2012, among Ultra Clean Holdings, Inc., Ultra Clean Technology Systems and Service, Inc., American Integration Technologies LLC, Ultra Clean Asia Pacific Pte. Ltd., the several lenders from time to time party thereto, Silicon Valley Bank and U.S. Bank National Association(t)
10.4	Guarantee and Collateral Agreement in favor of Silicon Valley Bank, dated as of July 3, 2012, made by Ultra Clean Holdings, Inc., Ultra Clean Technology Systems and Service, Inc., American Integration Technologies LLC, Ultra Clean Asia Pacific Pte. Ltd., UCT Sieger Engineering LLC, Integrated Flow Systems LLC and the other Grantors referred to therein and from time to time party thereto(t)
10.5	Amendment and Waiver Agreement, dated as of February 15, 2013, among the Company, certain of the Company's subsidiaries, Silicon Valley Bank and the several other banks and financial institutions or entities party thereto(u)
10.6	Employee Stock Purchase Plan (Restated as of October 21, 2004)(e)
10.7	Form of Indemnification Agreement between Ultra Clean Holdings, Inc. and each of its directors and executive officers(b)
10.8	Form of Award Agreement(c)
10.9	Severance Policy for Executive Officers (revised) (l)

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10.10	Form of Restricted Stock Unit Award Agreement(j)
10.11	Separation Agreement dated as of December 31, 2007 between the Company and Leonid Mezhvinsky(k)
10.12	Change of Control Severance Agreement dated as of July 28, 2008 by and between Ultra Clean Holdings, Inc. and Clarence L. Granger(l)
10.13	Change of control Severance Agreement dated as of July 21, 2009 by and between Ultra Clean Holdings, Inc. and Kevin C. Eichler(m)
10.14	Separation and Release Agreement between Ultra Clean Holdings, Inc. and David Savage (o)
10.15	Offer Letter between the Company and Gino Addiego dated February 17, 2011(p)
10.16	Change of Control Severance Agreement dated as of March 1, 2011, by and between Ultra Clean Holdings, Inc. and Gino Addiego(q)
21.1	Subsidiaries of Ultra Clean Holdings, Inc.
23.1	Consent of Independent Registered Public Accounting Firm
24.1	Power of Attorney (included on signature page)
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	XB RL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Calculation Linkbase Document
101.LAB	XBRL Taxonomy Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

- (a) Filed as an exhibit to the Registrant's Registration Statement on Form S-1 (File No. 333-11904), filed January 14, 2004.
- (b) Filed as an exhibit to Amendment No. 2 to the Registrant's Registration Statement on Form S-1/A (File No. 333-11904), filed March 2, 2004.
- (c) Filed as an exhibit to Amendment No. 3 to the Registrant's Registration Statement on Form S-1/A (File No. 333-11904), filed March 8, 2004.
- (d) Filed as an exhibit to the Registrant's Registration Statement on Form S-8 (File No. 333-167530), filed June 15, 2010.
- (e) Filed as an exhibit to the Registrant's Quarterly Report on Form 10-Q for the three months ended September 30, 2004.
- (f) Not used.
- (g) Filed as an exhibit to the Registrant's Current Report on Form 8-K, filed July 6, 2006.
- (h) Not used.
- (i) Filed as an exhibit to the Registrant's Current Report on Form 8-K, filed August 3, 2009.

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- (j) Filed as an exhibit to the Registrant's Annual Report on Form 10-K for the year ended December 28, 2007.
- (k) Filed as an exhibit to the Registrant's Quarterly Report on Form 10-Q for the three months ended March 28, 2008.
- (l) Filed as an exhibit to the Registrant's Annual Report on Form 10-K for the year ended January 2, 2009.
- (m) Filed as an exhibit to the Registrant's Quarterly Report on Form 10-Q for the three months ended October 2, 2009.
- (n) Not used.
- (o) Filed as an exhibit to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2010.
- (p) Filed as an exhibit to the Registrant's Current Report on Form 8-K, filed March 7, 2011.
- (q) Filed as an exhibit to the Registrant's Quarterly Report on Form 10-Q for the three months ended March 30, 2012.
- (r) Filed as an exhibit to the Registrant's Current Report on Form 8-K, filed May 23, 2012.
- (s) Filed as an exhibit to the Registrant's Quarterly Report on Form 10-Q for the three months ended June 29, 2012.
- (t) Filed as an exhibit to the Registrant's Current Report on Form 8-K, filed July 10, 2012.
- (u) Filed as an exhibit to the Registrant's Current Report on Form 8-K, filed March 22, 2012.

Denotes management contract or compensatory plan.

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Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

Ultra Clean Holdings, Inc.

By: /s/ CLARENCE L. GRANGER  
**Clarence L. Granger**  
**Chairman & Chief Executive Officer**

Date: March 13, 2013

**KNOW ALL PERSONS BY THESE PRESENTS**, that each person whose signature appears below constitutes and appoints Clarence L. Granger and Kevin C. Eichler, and each of them, as his true and lawful attorneys-in-fact and agents, with full power of substitution and re-substitution, for him in any and all capacities, to sign any and all amendments to this Annual Report on Form 10-K and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission hereby ratifying and confirming that each of said attorneys-in-fact and agents, or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

<b>Signature</b>	<b>Title</b>	<b>Date</b>
/s/ CLARENCE L. GRANGER <b>Clarence L. Granger</b>	Chairman & Chief Executive Officer (Principal Executive Officer) and Director	March 13, 2013
/s/ KEVIN C. EICHLER <b>Kevin C. Eichler</b>	Senior Vice President and Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)	March 13, 2013
/s/ LEONID MEZHVINSKY <b>Leonid Mezhvinsky</b>	Director	March 13, 2013
/s/ JOHN CHENAULT <b>John Chenault</b>	Director	March 13, 2013
/s/ SUSAN H. BILLAT <b>Susan H. Billat</b>	Director	March 13, 2013
/s/ DAVID T. IBNALE <b>David T. IbnAle</b>	Director	March 13, 2013

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**Exhibit Index**

2.1	Agreement and Plan of Merger dated as of October 30, 2002, among Ultra Clean Holdings, Inc., Ultra Clean Technology Systems and Service, Inc., Mitsubishi Corporation, Mitsubishi International Corporation and Clean Merger Company(a)
2.2	Agreement and Plan of Merger and Reorganization dated as of June 29, 2006 by and among Sieger Engineering, Inc., Leonid Mezhvinsky, Ultra Clean Holdings, Inc., Bob Acquisition Inc., Pete Acquisition LLC, Leonid and Inna Mezhvinsky as trustees of the Revocable Trust Agreement of Leonid Mezhvinsky and Inna Mezhvinsky dated April 26, Joe and Jenny Chen as trustees of the Joe Chen and Jenny Chen Revocable Trust dated 2002, Victor Mezhvinsky, Victor Mezhvinsky as trustee of the Joshua Mezhvinsky 2004 Irrevocable Trust under Agreement dated June 4, 2004, David Hongyu Wu and Winnie Wei Zhen Wu as trustees of the Chen Minors Irrevocable Trust, Frank Moreman and Leonid Mezhvinsky as Sellers Agent(g)
2.3	Agreement and Plan of Merger, dated as of May 18, 2012, among American Integration Technologies, LLC, AIT Holding Company LLC, Ultra Clean Holdings, Inc. and Element Merger Subsidiary, LLC(r)
3.1	Amended and Restated Certificate of Incorporation of Ultra Clean Holdings, Inc.(b)
3.2	Amended and Restated Bylaws of Ultra Clean Holdings, Inc.(i)
4.1	Amended and Restated Registration Rights Agreement dated as of June 29, 2006 among Ultra Clean, FP-Ultra Clean L.L.C. and the Sieger Shareholders(g)
4.2	Lock-Up and Standstill Agreement, dated July 3, 2012, among Ultra Clean Holdings, Inc., AIT Holding Company LLC, HLHZ AIT Holdings, L.L.C. and Houlihan Lokey, Inc.(s)
4.3	Registration Rights Agreement, dated July 3, 2012, among Ultra Clean Holdings, Inc. and AIT Holding Company LLC(s)
4.4	Specimen Stock Certificate (c)
10.1	Amended and Restated 2003 Stock Incentive Plan (Amended as of June 10, 2010)(d)
10.2	Form of Stock Option Agreement(c)
10.3	Credit Agreement, dated as of July 3, 2012, among Ultra Clean Holdings, Inc., Ultra Clean Technology Systems and Service, Inc., American Integration Technologies LLC, Ultra Clean Asia Pacific Pte. Ltd., the several lenders from time to time party thereto, Silicon Valley Bank and U.S. Bank National Association(t)
10.4	Guarantee and Collateral Agreement in favor of Silicon Valley Bank, dated as of July 3, 2012, made by Ultra Clean Holdings, Inc., Ultra Clean Technology Systems and Service, Inc., American Integration Technologies LLC, Ultra Clean Asia Pacific Pte. Ltd., UCT Sieger Engineering LLC, Integrated Flow Systems LLC and the other Grantors referred to therein and from time to time party thereto(t)
10.5	Amendment and Waiver Agreement, dated as of February 15, 2013, among the Company, certain of the Company s subsidiaries, Silicon Valley Bank and the several other banks and financial institutions or entities party thereto(u)
10.6	Employee Stock Purchase Plan (Restated as of October 21, 2004)(e)
10.7	Form of Indemnification Agreement between Ultra Clean Holdings, Inc. and each of its directors and executive officers(b)
10.8	Form of Award Agreement(c)
10.9	Severance Policy for Executive Officers (revised)(l)

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10.10	Form of Restricted Stock Unit Award Agreement(j)
10.11	Separation Agreement dated as of December 31, 2007 between the Company and Leonid Mezhvinsky(k)
10.12	Change of Control Severance Agreement dated as of July 28, 2008 by and between Ultra Clean Holdings, Inc. and Clarence L. Granger(l)
10.13	Change of control Severance Agreement dated as of July 21, 2009 by and between Ultra Clean Holdings, Inc. and Kevin C. Eichler(m)
10.14	Separation and Release Agreement between Ultra Clean Holdings, Inc. and David Savage (o)
10.15	Offer Letter between the Company and Gino Addiego dated February 17, 2011(p)
10.16	Change of Control Severance Agreement dated as of March 1, 2011, by and between Ultra Clean Holdings, Inc. and Gino Addiego(q)
21.1	Subsidiaries of Ultra Clean Holdings, Inc.
23.1	Consent of Independent Registered Public Accounting Firm
24.1	Power of Attorney (included on signature page)
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	XB RL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Calculation Linkbase Document
101.LAB	XBRL Taxonomy Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

- (a) Filed as an exhibit to the Registrant's Registration Statement on Form S-1 (File No. 333-11904), filed January 14, 2004.
- (b) Filed as an exhibit to Amendment No. 2 to the Registrant's Registration Statement on Form S-1/A (File No. 333-11904), filed March 2, 2004.
- (c) Filed as an exhibit to Amendment No. 3 to the Registrant's Registration Statement on Form S-1/A (File No. 333-11904), filed March 8, 2004.
- (d) Filed as an exhibit to the Registrant's Registration Statement on Form S-8 (File No. 333-167530), filed June 15, 2010.
- (e) Filed as an exhibit to the Registrant's Quarterly Report on Form 10-Q for the three months ended September 30, 2004.
- (f) Not used.
- (g) Filed as an exhibit to the Registrant's Current Report on Form 8-K, filed July 6, 2006.
- (h) Not used.
- (i) Filed as an exhibit to the Registrant's Current Report on Form 8-K, filed August 3, 2009.
- (j) Filed as an exhibit to the Registrant's Annual Report on Form 10-K for the year ended December 28, 2007.



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- (k) Filed as an exhibit to the Registrant's Quarterly Report on Form 10-Q for the three months ended March 28, 2008.
  - (l) Filed as an exhibit to the Registrant's Annual Report on Form 10-K for the year ended January 2, 2009.
  - (m) Filed as an exhibit to the Registrant's Quarterly Report on Form 10-Q for the three months ended October 2, 2009.
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