ULTRA CLEAN HOLDINGS INC
Form 10-Q
November 07, 2012
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

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

For the quarterly period ended September 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)

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

(510) 576-4400

Registrant s telephone number, including area code

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

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

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

Number of shares outstanding of the issuer s common stock as of October 26, 2012: 27,849,298

ULTRA CLEAN HOLDINGS, INC.

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PART I. FINANCIAL INFORMATION

ITEM 1. Financial Statements

ULTRA CLEAN HOLDINGS, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited; in thousands, except share amounts)

	September 28, 2012	December 30, 2011
ASSETS		
Current assets:		
Cash and cash equivalents	$ 58,329	$ 52,155
Accounts receivable, net of allowance of $8 and $5, respectively	47,549	41,051
Inventory	63,304	55,473
Prepaid expenses and other	7,406	5,441
Total current assets	176,588	154,120
Equipment and leasehold improvements, net	9,891	10,009
Goodwill	56,899	
Purchased intangibles, net	29,651	8,987
Other non-current assets	5,372	5,183
Total assets	$ 278,401	$ 178,299
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Bank borrowings	$ 48,523	$ 2,931
Accounts payable	34,084	29,451
Accrued compensation and related benefits	4,061	2,803
Deferred rent, current portion	995	895
Other current liabilities	2,422	662
Total current liabilities	90,085	36,742
Long-term debt, net of current portion	29,312	21,802
Deferred rent and other liabilities	1,753	2,470
Total liabilities	121,150	61,014
Commitments and contingencies (See Note 8)		
Stockholders equity:		
Preferred stock $0.001 par value, 10,000,000 authorized; none outstanding		
Common stock $0.001 par value, 90,000,000 authorized; 27,848,965 and 22,910,649 shares issued and outstanding, in 2012 and 2011, respectively	142,065	108,838
Common shares held in treasury, at cost, 601,944 shares in 2012 and 2011	(3,337)	(3,337)
Accumulated other comprehensive loss	(143)	
Retained earnings	18,666	11,784

Total stockholders equity		157,251		117,285
Total liabilities and stockholders equity	$	278,401	$	178,299

(See accompanying notes to condensed consolidated financial statements)

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ULTRA CLEAN HOLDINGS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited; in thousands, except per share data)

	Three months ended		Nine months ended	
	September 28, 2012	September 30, 2011	September 28, 2012	September 30, 2011
Sales	$ 100,849	$ 105,306	$ 313,363	$ 365,766
Cost of goods sold	86,526	92,454	269,126	316,369
Gross profit	14,323	12,852	44,237	49,397
Operating expenses:				
Research and development	1,309	1,252	4,003	4,294
Sales and marketing	1,805	1,679	5,215	5,754
General and administrative	10,573	5,611	22,832	17,359
Acquisition costs (Note 3)	2,063		2,431	
Total operating expenses	15,750	8,542	34,481	27,407
Income (loss) from operations	(1,427)	4,310	9,756	21,990
Interest and other income (expense), net	(813)	(275)	(932)	(1,010)
Income (loss) before provision for income taxes	(2,240)	4,035	8,824	20,980
Income tax provision (benefit)	(539)	880	1,942	5,047
Net income (loss)	$ (1,701)	$ 3,155	$ 6,882	$ 15,933
Net income (loss) per share:				
Basic	$ (0.06)	$ 0.14	$ 0.28	$ 0.70
Diluted	$ (0.06)	$ 0.14	$ 0.27	$ 0.68
Shares used in computing net income (loss) per share:				
Basic	27,656	22,804	24,851	22,666
Diluted	27,656	23,246	25,493	23,484

(See accompanying notes to condensed consolidated financial statements)

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ULTRA CLEAN HOLDINGS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(Unaudited; in thousands)

	Three months ended		Nine months ended	
	September 28, 2012	September 30, 2011	September 28, 2012	September 30, 2011
Net income (loss)	$ (1,701)	$ 3,155	$ 6,882	$ 15,933
Other comprehensive income (loss), net of tax:				
Change in cumulative translation adjustments	(20)		(143)	
Comprehensive income (loss)	$ (1,721)	$ 3,155	$ 6,739	$ 15,933

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ULTRA CLEAN HOLDINGS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited; in thousands)

	Nine months ended	
	September 28, 2012	September 30, 2011
Cash flows from operating activities:		
Net income	$ 6,882	$ 15,933
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	2,386	2,172
Excess tax benefit from stock-based compensation	(117)	(753)
Amortization of intangibles	1,837	
Amortization of debt issuance costs	114	
Stock-based compensation	4,066	3,252
Changes in assets and liabilities, net of AIT acquisition:		
Accounts receivable, net of allowance	10,814	6,919
Inventory	14,643	21
Prepaid expenses and other	(1,965)	(963)
Other non-current assets	(189)	(19)
Accounts payable	(6,728)	(19,026)
Accrued compensation and related benefits	(851)	(458)
Other liabilities	(1,963)	1,085
Net cash provided by operating activities	28,929	8,163
Cash flows used in investing activities:		
Purchases of equipment and leasehold improvements	(409)	(3,494)
AIT acquisition, net of cash acquired	(75,325)	
Net cash used in investing activities	(75,734)	(3,494)
Cash flows provided by (used in) financing activities:		
Proceeds from term loan and revolving credit facility	115,454	
Principal payments on revolving credit facility, term debt and capital lease obligations	(60,530)	(3,101)
Payments of debt issuance costs	(1,940)	
Excess tax benefit from stock-based compensation	117	753
Employees taxes paid upon vesting of restricted stock units	(341)	
Proceeds from issuance of common stock	220	897
Net cash provided by (used in) financing activities	52,979	(1,451)
Net increase in cash	6,174	3,218
Cash and cash equivalents at beginning of period	52,155	34,654
Cash and cash equivalents at end of period	$ 58,329	$ 37,872
Supplemental items:		
Cash paid/refunded during the period:		
Income taxes paid	$ 4,472	$ 2,196
Income tax refunds	$ (661)	$ (613)
Interest	$ 800	$ 880
Non-cash activities:		
Fair value of common shares issued for acquisition	$ 29,565	$

Restricted stock issued	$ 4,744	$ 8,076

(See accompanying notes to condensed consolidated financial statements)

ULTRA CLEAN HOLDINGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Organization, Basis of Presentation 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 our 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.

Basis of Presentation The unaudited condensed consolidated financial statements included in this quarterly report on Form 10-Q include the accounts of the Company and its wholly-owned subsidiaries and have been prepared in accordance with generally accepted accounting principles in the United States of America (GAAP). This financial information reflects all adjustments which are, in the opinion of the Company, normal, recurring and necessary to present fairly the statements of financial position, results of operations and cash flows for the dates and periods presented. The Company s December 30, 2011, balance sheet data was derived from audited financial statements as of that date.

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 (see Note 3) is included in the Company s consolidated results of operations.

The unaudited condensed consolidated financial statements should be read in conjunction with the Company s consolidated financial statements for the fiscal year ended December 30, 2011, included in its Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 21, 2012. The Company s results of operations for the three and nine months ended September 28, 2012, are not necessarily indicative of the results to be expected for any future periods.

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.

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. The resulting translation adjustments are recorded as cumulative translation adjustments, and are a component of accumulated other comprehensive income (loss). Foreign currency transaction gains and losses are recorded in other income (expense), net.

Use of Accounting Estimates The presentation of financial statements in conformity with generally accepted accounting principles 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.

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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 had significant sales to three customers, each of which accounted for 10% or more of sales for the three months ended September 28, 2012. The Company had significant sales to two customers, each of which accounted for 10% or more of sales for the three months ended September 30, 2011, and the nine months ended September 28, 2012 and September 30, 2011. Sales to each of these customers as a percentage of total sales were as follows:

	Three months ended		Nine months ended	
	September 28, 2012	September 30, 2011	September 28, 2012	September 30, 2011
Applied Materials, Inc. (1)	29.4%	37.8%	39.6%	38.3%
Lam Research Corporation (2)	27.5%	21.3%	34.4%	31.7%
ASM International (3)	19.5%			
Total	76.4%	59.1%	74.0%	70.0%

(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 the nine months ended September 28, 2012 include sales to Varian Semiconductor Equipment Associates, Inc. The sales percentages for Applied Materials, Inc. for the nine months ended September 30, 2011 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 the nine months ended September 28, 2012 include sales to Novellus Systems, Inc. The sales percentages for Lam Research Corporation for the nine months ended September 30, 2011 have been updated to reflect the inclusion of sales to Novellus Systems, Inc., for comparison purposes.

(3) Sales to ASM International are the result of the Company s acquisition of AIT during the third quarter of 2012, and, therefore, there were no sales to ASM International during the same periods of the prior year.

Three customers accounts receivable balances- Applied Materials, Inc., Lam Research Corporation and ASM International- were individually greater than 10% of accounts receivable as of September 28, 2012 and, in the aggregate, represented approximately 74% 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.

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 with a carrying value and fair value of $22.2 million at September 28, 2012, based on Level 2 inputs. The Company s only financial liability measured at fair value is our credit facility. Specifically, our long term debt was based on level 2 inputs and fair value was determined using quoted prices for similar liabilities in inactive markets and our outstanding borrowings under our 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. Our carrying value approximates fair value for our long term debt and revolving credit facility.

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Fiscal Year 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.

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 amount of $441,000 as of September 28, 2012 and December 30, 2011.

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.

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. The determination of such provisions requires the Company to make estimates of product return rates and expected costs to repair or replace the products under warranty. If actual return rates and/or repair and replacement costs differ significantly from these estimates, adjustments to cost of sales may be required in future periods. Components of the reserve for warranty costs consisted of the following (in thousands):

	Nine months ended	
	September 28, 2012	**September 30, 2011**
Beginning balance	$ 350	$ 204
Provisions for warranty	(4)	627
Warranty claims	(112)	(473)
Ending balance	$ 234	$ 358

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.

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 5 to Condensed Consolidated Financial Statements).

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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.

Stock-Based Compensation Expense

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

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

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

Stock Options

The following table summarizes information with respect to options granted, exercised and canceled in the nine months ended September 28, 2012 and outstanding at September 28, 2012:

	Number of Shares
Options outstanding at December 30, 2011	1,654,691
Granted	
Exercised	(108,247)
Canceled	(11,955)
Options outstanding at September 28, 2012	1,534,489

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There were no options granted by the Company during either of the nine month periods ended September 28, 2012 or September 30, 2011.

The weighted-average exercise price, aggregate intrinsic value and weighted average remaining contractual life of outstanding options as of September 28, 2012 were $6.90 per share, $2.0 million and 4.26 years, respectively. As of September 28, 2012, 1,437,338 options with a weighted-average exercise price of $7.24 per share, aggregate intrinsic value of $1.7 million and a weighted average remaining contractual life of 4.1 years were exercisable. The total unamortized expense of the Company s unvested options, net of forfeitures, as of September 28, 2012, was $0.1 million.

Employee Stock Purchase Plan

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

Restricted Stock Units and Restricted Stock Awards

The Company grants Restricted Stock Units (RSU s) to employees and Restricted Stock Awards (RSA) to non-employee directors as part of the Company s long term equity compensation plan.

Restricted Stock Units 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. RSU s typically vest over three years, subject to the employee s continued service with the Company. For purposes of determining compensation expense related to these RSU s, the fair value is determined based on the closing market price of the Company s common stock on the date of award. The expected cost of the grant is reflected over the service period, and is reduced for estimated forfeitures. The Company granted 548,900 RSU s (including 110,375 performance stock units) during the quarter ended March 30, 2012, with a weighted average fair value of $8.21 per share and 443,500 RSU s (including 66,250 performance stock units) during the quarter ended April 1, 2011, with a weighted average fair value of $10.30 per share. The Company granted 4,450 RSU s during the quarter ended June 29, 2012, with a weighted average fair value of $6.41 per share and granted 249,550 RSU s during the quarter ended July 1, 2011, with a weighted average fair value of $11.20 per share. The Company granted 6,000 RSU s during the quarter ended September 28, 2012, with a weighted average fair value of $6.06 per share. There were no grants of RSU s during the quarter ended September 30, 2011. During the nine months ended September 28, 2012, 44,687 vested shares were withheld to satisfy withholding tax obligations, resulting in the net issuance of 69,563 shares. As of September 28, 2012, $6.7 million of stock-based compensation cost, net of forfeitures, related to RSU s remains to be amortized, of which substantially all is expected to be recognized over an estimated period of less than three years. As of September 28, 2012, a total of 1,316,641 RSU s remain outstanding with an aggregate intrinsic value of $7.5 million and a weighted average remaining contractual term of 1.2 years.

Restricted Stock Awards During each of the quarters ended June 29, 2012 and July 1, 2011, the Company issued 30,000 shares of restricted stock awards to its non-employee directors. The total unamortized expense of the Company s unvested restricted stock awards as of September 28, 2012, was approximately $0.1 million.

The following table summarizes the Company s restricted stock unit and restricted stock award activity for the nine months ended September 28, 2012:

	Number of Shares
Unvested restricted stock units and restricted stock awards at December 30, 2011	1,168,867
Granted	589,350
Vested	(369,720)
Forfeited	(41,856)
Unvested restricted stock units and restricted stock awards at September 28, 2012	1,346,641

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

	Three months ended		Nine months ended	
	September 28, 2012	September 30, 2011	September 28, 2012	September 30, 2011
Cost of sales	$ 422	$ 375	$ 1,237	$ 1,025
Research and development	91	89	256	247
Sales and marketing	118	88	324	302
General and administrative	786	534	2,249	1,678
Total stock-based compensation expense	1,417	1,086	4,066	3,252
Income tax benefit	(341)	(237)	(926)	(771)
Total stock-based compensation expense, net of income tax benefit	$ 1,076	$ 849	$ 3,140	$ 2,481

(1) As of September 28, 2012 and September 30, 2011, there were no stock-based compensation expenses capitalized in inventory.

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 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. The implementation of this authoritative guidance changed only the presentation of comprehensive income 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. GAAP 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 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 our condensed consolidated financial statements.

2. Balance Sheet Information (in thousands)

Inventory consisted of the following (in thousands):

	September 28, 2012*	December 30, 2011
Raw materials	$ 52,688	$ 42,976
Work in process	11,300	12,953
Finished goods	4,585	3,486
	68,573	59,415
Reserve for excess and obsolete	(5,270)	(3,942)
Total	$ 63,304	$ 55,473

* The total inventory balance as of September 28, 2012 includes AIT inventory of $22.2 million.

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

	September 28, 2012	December 30, 2011
Computer equipment and software	$ 8,506	$ 7,089
Furniture and fixtures	2,306	1,761
Machinery and equipment	10,193	9,282
Leasehold improvements	10,826	10,860
	31,831	28,992
Accumulated depreciation and amortization	(21,939)	(18,983)
Total	$ 9,891	$ 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. The Company s primary reason for this acquisition was to immediately add to its existing customer base in both the semiconductor and medical

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spaces and to provide additional manufacturing capabilities. 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 Condensed Consolidated Financial Statements.

The Company preliminarily allocated the purchase price of AIT to tangible assets, liabilities and identifiable intangible assets acquired, based on their estimated fair values. The excess of purchase price over the aggregate fair values was recorded as goodwill. Although goodwill is not amortized for book purposes, it is amortized for tax purposes over fifteen years. The fair value assigned to identifiable intangible assets acquired was based on estimates and assumptions made by an independent third party analysis. These estimates were determined through established and generally accepted valuation techniques. 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 certain tangible assets and liabilities acquired, income and non-income based taxes and residual goodwill. During the measurement period, which can be no more than one year from the date of acquisition, we expect to continue to obtain information to assist us in determining the final fair value of the net assets acquired at the acquisition date during the measurement period. The preliminary purchase price for the acquisition is allocated as follows:

Fair Market Values ($000 s)	
Cash and cash equivalents	$ 380
Accounts receivable, net	16,959
Inventories	22,474
Other current assets	294
Property and equipment, net	1,880
Goodwill	56,899
Purchased intangible assets	22,500
Total assets acquired	121,386
Accounts payable and accrued expenses	(13,657)
Other liabilities	(2,839)
Total liabilities assumed	(16,496)
Purchase price allocated	$ 104,890

	Useful Life (In years)	**Purchased Intangible Assets (In 000 s)**
Customer relationships	6	$ 19,000
Trade name	6	1,900
Intellectual property/know-how	7	1,600
Total purchased intangible assets		$ 22,500

Goodwill is not amortized but is reviewed for impairment at least annually and whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable.

The results of operations of AIT are included in the Company s consolidated results of operations beginning in the third quarter of fiscal 2012. For the three months ended September 28, 2012, net sales of approximately $36.5 million and operating income of approximately $4.6 million attributable to AIT were included in the consolidated results of operations. For the three months ended September 28, 2012, results of operations included charges of $1.8 million and $2.1 million, respectively, attributable to amortization of purchased intangible assets and deal costs associated with the acquisition. In the Company s Form 8-K/A filed on September 17, 2012, the Company preliminarily calculated amortization of purchased intangible assets on a straight-line basis. However, upon further analysis, the Company determined that an accelerated method of amortization is more appropriate. Deal costs are included in general and administrative expenses in the Company s consolidated results of operations.

The following unaudited pro forma consolidated results of operations assume the acquisition was completed as of the beginning of the fiscal reporting periods presented. The unaudited pro forma consolidated results of operations for the three and nine months ended September 30, 2011 and the nine months ended September 28, 2012 combine the results of Ultra Clean and AIT for the three and nine months ended September 30, 2011.

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	Three Months Ended		Nine Months Ended	
	September 28, 2012	September 30, 2011	September 28, 2012	September 30, 2011
	(In thousands, except per share amounts)			
Net sales	$ 100,849	$ 144,607	$ 380,208	$ 504,194
Net income (loss)	$ (177)	$ 4,167	$ 9,312	$ 21,612
Basic earnings (loss) per share	$ (0.01)	$ 0.15	$ 0.33	$ 0.80
Diluted earnings (loss) per share	$ (0.01)	$ 0.15	$ 0.33	$ 0.77

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 three and nine months ended September 30, 2011 include acquisition related costs of $2.0 million which are not expected to occur in future quarters. The unaudited pro forma condensed combined financial information has been prepared by management for illustrative purposes only and are not necessarily indicative of the condensed consolidated financial position or results of income in future periods or the results that actually would have been realized had 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

4. Goodwill and Purchased Intangible Assets

The Company s methodology for allocating the purchase price relating to purchase acquisitions is determined through established and generally accepted valuation techniques. Goodwill is measured as the excess of the cost of the acquisition over the sum of the amounts assigned to tangible and identifiable intangible assets acquired less liabilities assumed. Goodwill and purchased intangible assets with indefinite useful lives are not amortized, but are reviewed for impairment at least annually and whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. The 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.

The Company has adopted authoritative guidance which allows entities to use a qualitative approach to test goodwill for impairment. This authoritative guidance permits an entity to first perform a qualitative assessment to determine whether it is more likely than not that the fair value an asset group is less than its carrying value. If it is concluded that this is the case, it is necessary to perform the two-step goodwill impairment test. Otherwise, the two-step goodwill impairment test is not required. Under the two-step goodwill impairment test, the Company would in the first step compare its estimated fair value of the asset group to its carrying value. If the fair value of the asset group exceeds the carrying value of the net assets assigned to that asset group, goodwill is not impaired and no further testing is performed. If the carrying value of the net assets assigned to the asset group exceeds its fair value, then the Company would perform the second step of the impairment test in order to determine the implied fair value of the asset group s goodwill. The Company would then allocate the fair value of the asset group to all of the assets and liabilities of that asset group, as if the Company had acquired it in a business combination, with the fair value of the asset group being the purchase price. The excess of the purchase price over the carrying amounts assigned to assets and liabilities represents the implied fair value of goodwill. If the Company were to determine that the carrying value of an asset group s goodwill exceeded its implied fair value, the Company would record an impairment charge equal to the difference.

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Details of goodwill and other intangible assets were as follows (in $000 s):

	September 28, 2012			September 30, 2011		
	Goodwill	Purchased Intangible Assets	Total	Goodwill	Purchased Intangible Assets	Total
Carrying amount	$ 56,899	$ 29,651	$ 86,550	$	$ 8,987	$ 8,987

Purchased Intangible Assets

The Company amortizes purchased intangible assets with determinable lives using an accelerated method over the estimated economic lives of the assets, ranging from six to seven years.

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.

Intangible assets are generally recorded in connection with a business acquisition. The value assigned to intangible assets is usually based on estimates and judgments regarding expectations for the success and life cycle of products and technology acquired, trade-name 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 were as follows as of September 28, 2012:

	Useful Life (in years)	Purchased Intangible Assets (in $ 000 s)
Customer relationships	6	$ 19,000
Trade name	6	1,900
Intellectual Property/Know-How	7	1,600
Total purchased intangible assets		22,500
Accumulated amortization		1,836
Carrying amount		$ 20,664

Amortization expense was approximately $1.8 million for the three months ended September 28, 2012. The Company had no amortization in 2011 and for the first six months of fiscal 2012.

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

	Amortization Expense (in $000 s)
Q4 2012	$ 1,893
2013	6,286
2014	5,021
2015	2,882
2016	2,341
2017	1,409
2018	658
2019	114
Total	$ 20,604

5. Borrowing Arrangements

Prior to July 3, 2012, the Company had borrowing arrangements with Silicon Valley Bank under a Loan and Security Agreement (the Loan Agreement) which included a $25.0 million revolving credit facility (revolver), maturing on December 31, 2013, and an $8.0 million term loan (term loan), maturing on October 21, 2013. The aggregate amount of the revolver was secured by substantially all of the Company s assets.

The interest rate on the revolver during the six months ended June 29, 2012 was 3.5%. Pursuant to the Loan Agreement, the term loan bore interest per annum at a variable rate equal to the greater of prime rate, as defined per the loan agreement, plus a margin of 75 basis points. During the six months ended and as of June 29, 2012, the interest rate on the outstanding term loan was 4.0%. The entire outstanding balance of the revolver as of the end of second quarter of 2012 was repaid through the proceeds of the new loan facility on July 3, 2012.

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

The New Term Loan 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 outstanding principal amount of the New Term Loan due at the final maturity, which is July 3, 2016. The New 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 (subject to certain exceptions and limitations).

At the Company s option, borrowings under the New Term Loan and New Revolving Credit Facility (subject to certain limitations) bear interest at either a base rate or at the London Interbank Offered Rate (LIBOR) (with the LIBOR being adjusted for certain Eurocurrency reserve requirements, if any, as described in the Credit Agreement), plus, in each case, an applicable margin based on 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.

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The Credit Agreement requires us to maintain a consolidated fixed charge coverage ratio (as defined in the Credit Agreement) of at least 1.75 to 1.00 initially and 2.00 to 1.00 from and after March 2013. The Credit Agreement requires the Company to maintain a consolidated leverage ratio (as defined in the Credit Agreement) no greater than 2.25 to 1.00 as of the end of the third quarter of fiscal 2012, stepping down to 2.00 to 1.00 as of the end of the fourth quarter of fiscal 2012 and the first quarter of fiscal 2013, 1.50 to 1.00 as of the end of the second and third quarters of fiscal 2013 and 1.25 to 1.00 as of the end of each fiscal quarter thereafter. The Credit Agreement also requires the Company to maintain minimum domestic cash, as defined, of $20.0 million as of the last day of any fiscal quarter and $15.0 million as of the last day of any other month from September 1, 2012 through June 30, 2013 and $25.0 million as of the last day of any fiscal quarter and $20.0 million as of the last day of any other month after June 30, 2013. The Credit Agreement also includes other customary affirmative and negative covenants. For the month of August 2012, the Company was not in compliance with one of its covenants for which the Company received a waiver from the Lenders. The Company was in compliance with this particular covenant as of September 28, 2012. Also, as of September 28, 2012, the Company was not in compliance with one of its post-closing documentation-related requirements relating to the AIT acquisition, for which it received a waiver.

The Credit Agreement also 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) if the aggregate outstanding principal amount of the New Term Loan equals or exceeds $20.0 million and (b) 25% of excess cash flow if the aggregate outstanding principal amount of the New Term Loan equals or exceeds $10.0 million but is less than $20.0 million.

As of September 28, 2012, the Company s term loan and revolver balances were $39,083,000 and $38,752,000, respectively, which are net of debt issuance costs of $917,000 and $909,000, respectively. The Company has analyzed the Credit Agreement and determined that the outstanding balance of revolver debt should be classified as short-term. Total debt, net of issuance costs, as of September 28, 2012, was $77,835,000.

6. Income Tax

The Company s income tax provision (benefit) and related effective tax rate for the three and nine month periods ended September 28, 2012 was $(539,000) and 24% and $1,942,000 and 22.0%, respectively, compared to $880,000 and 21.8% and $5,047,000 and 24.1%, respectively for the same periods a year ago. The change in respective rates reflects, primarily, changes in the geographic mix of worldwide earnings and financial results for the nine month period ended September 28, 2012 of compared to the same period in 2011.

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

	Nine months ended	
	September 28, 2012	**September 30, 2011**
Balance as of the beginning of period	$ 132	$ 39
Finalization of tax audits	(21)	
Expiration of the statute of limitations for the assessment of taxes		(39)
Balance as of the end of period	$ 111	$

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 the Company 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. 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 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 September 28, 2012, the Company maintained a full valuation allowance on one of its China subsidiaries in the amount of $441,000 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, U.S. GAAP guidance requires the Company to review its cumulative twelve-quarter income/loss as well as its ability to generate sufficient future taxable income to realize the Company s net deferred tax assets. During the quarter ended September 28, 2012, the Company conducted a review of this subsidiary, as well as its other worldwide subsidiaries, and determined that the valuation allowance on its consolidated deferred tax assets is adequate.

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The Company files income tax returns in the U.S. federal jurisdiction, various states and foreign jurisdictions. The Company s 2008 through 2011 federal income tax returns are open to audit through the statute of limitations by the Internal Revenue Service. The Company s 2007 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. The Company s federal returns are still open for fiscal years 2004 through 2007 due to the carryback of losses for these years.

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 for the three and nine month period ended September 28, 2012.

Undistributed earnings of the Company s foreign subsidiaries at September 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.

Sales, use and value-added taxes receivable and payable are recorded on a net basis by jurisdiction. Subsequent to the issuance of the September 30, 2011 consolidated financial statements, management determined that certain of these receivables and payables had previously been recorded on a gross basis. Accordingly, the amounts previously reported as of September 30, 2011 and December 31, 2010, have been corrected to be reported on a net basis. Accrued liabilities were reduced by $6.0 million and $2.7 million, respectively as of September 30, 2011 and December 31, 2010 from $7.4 million and $3.2 million as previously reported to $1.4 million and $0.5 million, respectively. Prepaid and other current assets were reduced by $6.0 million and $2.7 million as of September 30, 2011 and December 31, 2010 from $10.2 million and $5.9 million as previously reported to $4.2 million and $3.2 million, respectively. Additionally, the consolidated statement of cash flows for the nine months ended September 30, 2011 has been corrected, within cash flows from operating activities, to report a change in prepaid expenses and other current assets of $1.0 million rather than a change of $4.3 million as previously reported, and a change in accrued liabilities of $1.1 million rather than a change of $4.4 million as previously reported. These corrections had no effect on the Company s previously reported stockholders equity, results of operations, or net cash provided by operations.

7. Net Income (Loss) Per Share

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

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

	Three months ended		Nine months ended	
	September 28, 2012	**September 30, 2011**	**September 28, 2012**	**September 30, 2011**
Numerator:				
Net income (loss)	$ (1,701)	$ 3,155	$ 6,882	$ 15,933
Denominator:				
Shares used in computation basic:				
Weighted average common shares outstanding	27,656	22,804	24,851	22,666
Shares used in computing basic net income (loss) per share	27,656	22,804	24,851	22,666
Shares used in computation diluted:				
Shares used in computing basic net income (loss) per share	27,656	22,804	24,851	22,666
Dilutive effect of common shares outstanding subject to repurchase		59	265	269
Dilutive effect of options outstanding		383	377	549
Shares used in computing diluted net income per share	27,656	23,246	25,493	23,484
Net income (loss) per share basic	$ (0.06)	$ 0.14	$ 0.28	$ 0.70
Net income (loss) per share diluted	$ (0.06)	$ 0.14	$ 0.27	$ 0.68

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The Company had securities outstanding which could potentially dilute basic earnings per share in the third quarter ended September 28, 2012, but the incremental shares from the assumed exercise of these securities were excluded in the computation of diluted net income per share, as their effect would have been anti-dilutive. Such outstanding securities consisted of 1,013,361 and 1,045,909 stock options for the three months ended September 28, 2012 and September 30, 2011, respectively, and 612,069 and 382,255 stock options for the nine months ended September 28, 2012 and September 30, 2011, respectively.

8. Commitments and Contingencies

The Company had commitments to purchase inventory totaling approximately $25.5 million at September 28, 2012.

The Company leases properties domestically in Hayward, California, Austin, Texas, Chandler, Arizona, and South San Francisco, California and internationally in China, Singapore and the Philippines. The Company s total remaining future minimum lease payments as of September 28, 2012, over the remaining terms of these leases will be approximately $13.7 million.

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

9. Segment 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. 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 subsidiary in China. The Company s principal markets include North America, Asia and, to a lesser degree, Europe. Sales by geographic area represent sales to unaffiliated customers.

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

	Three months ended		Nine months ended	
	September 28, 2012	September 30, 2011	September 28, 2012	September 30, 2011
United States	$ 84,437	$ 81,144	$ 239,716	$ 294,586
Asia	16,412	24,057	73,554	70,830
Europe		105	93	350
	$ 100,849	$ 105,306	$ 313,363	$ 365,766

At September 28, 2012 and September 30, 2011, approximately $4.2 million and $5.3 million, respectively, of the Company s long-lived assets were located in Asia, and the remaining balances were located in the United States.

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

You should read the following discussion of our financial condition and results of operations in conjunction with the condensed consolidated financial statements and the notes thereto included elsewhere in this Quarterly Report on Form 10-Q in our Annual Report on Form 10-K filed with the SEC on March 21, 2012. This Quarterly Report on Form 10-Q contains forward-looking statements that involve substantial risks and uncertainties. The statements contained in this Quarterly Report on Form 10-Q that are not purely historical are forward-looking statements within the meaning of Section 27A of the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, including, but not limited to, statements regarding our expectations, beliefs, intentions, strategies, future operations, future financial position, future revenue, projected expenses gross margins and plans and objectives of management. In some cases, you can identify forward-looking statements by terms such as anticipate, believe, estimate, expect, intend, may, might, plan, project, will, would, should, could, can, predict, potential, continue, objective, or the negative of these terms, and similar expressions intended to identify forward-looking statements. However, not all forward-looking statements contain these identifying words. These forward-looking statements reflect our current views about future events and involve known risks, uncertainties and other factors that may cause our actual results, performance or achievement to be materially different from those expressed or implied by the forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those identified below, and those discussed in the section titled Risk Factors included in this Quarterly Report on Form 10-Q, in our Annual Report on Form 10-K filed with the SEC on March 21, 2012. Furthermore, such forward-looking statements speak only as of the date of this report. Except as required by law, we undertake no obligation to update any forward-looking statements to reflect events or circumstances after the date of such statements.

Overview

We are a 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.

Our customers are primarily original equipment manufacturers (OEMs) in industries we support, providing 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 position to benefit from the growing demand for subsystem outsourcing.

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. 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.

Financial Highlights

Sales for the three months ended September 28, 2012, were $100.8 million, a decrease of $4.5 million, or 4.2%, from the comparable quarter of 2011. Gross profit for the three months ended September 28, 2012, decreased $1.5 million, to $14.3 million, or 14.2% of sales, from $12.9 million, or 12.2% of sales, for the three months ended September 30, 2011. Sales for the nine months ended September 28, 2012, were $313.4 million, a decrease of $52.4 million, or 14.3%, from the comparable period of 2011. Gross profit for the nine months ended September 28, 2012, decreased $5.2 million, to $44.2 million, or 14.1% of sales, from $49.4 million, or 13.5% of sales, for the nine months ended September 30, 2011. Total operating expenses for the three months ended September 28, 2012, were $15.8 million, or 15.6% of sales, compared to $8.5 million, or 8.1% of sales, for the three months ended September 30, 2011. Total operating expenses for the nine months ended September 28, 2012, were $34.5 million, or 11.0% of sales, compared to $27.4 million, or 7.5% of sales, for the nine months ended September 30, 2011. We incurred a loss of $1.7 million for the three months ended September 28, 2012 compared to net income of $3.2 million for the three months ended September 30, 2011. We earned net income of $6.9 million for the nine months ended September 28, 2012 compared to net income of $15.9 million for the nine months ended September 30, 2011.

We had significant sales to three customers, each of which accounted for 10% or more of sales for the three months ended September 28, 2012 and we had significant sales to two customers, each of which accounted for 10% or more of sales for the nine months ended September 28, 2012. For a further discussion, see Note 1. Organization Basis of Presentation and Significant Accounting Policies- *Significant Sales to Customers* in

Notes to Condensed Consolidated Financial Statements above.

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 the arrangement, we agreed to assist FEI during the transition period through our third quarter of fiscal 2012 and, as a result, recorded a revenue stream totaling $2.1 million related to these efforts during that timeframe, offset by associated costs. During the second quarter of fiscal 2012, we received payments totaling $2.1 million, of which we recorded half of this amount in revenue in the second quarter and deferred the remainder which was recognized in the third quarter of fiscal 2012. During the second quarter we also received cash for all remaining outstanding accounts receivable and remaining inventory we had with FEI.

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 is not expected to impact our revenue in the fiscal 2012, it could have a negative quarterly impact of 7% to 9% on total revenue by the end of fiscal 2013.

Results of Operations

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

	Three months ended		**Nine months ended**	
	September 28, 2012	**September 30, 2011**	**September 28, 2012**	**September 30, 2011**
Sales	100.0%	100.0%	100.0%	100.0%
Cost of goods sold	85.8%	87.8%	85.9%	86.5%
Gross profit	14.2%	12.2%	14.1%	13.5%
Operating expenses:				
Research and development	1.3%	1.2%	1.3%	1.2%
Sales and marketing	1.8%	1.6%	1.7%	1.6%
General and administrative	10.5%	5.3%	7.3%	4.7%
Acquisition costs	2.0%		0.8%	
Total operating expenses	15.6%	8.1%	11.0%	7.5%
Income (loss) from operations	(1.4)%	4.1%	3.1%	6.0%
Interest and other income (expense), net	(0.8)%	(0.3)%	(0.3)%	(0.3)%
Income (loss) before provision for income taxes	(2.2)%	3.8%	2.8%	5.7%
Income tax provision (benefit)	(0.5)%	0.8%	0.6%	1.4%
Net income (loss)	(1.7)%	3.0%	2.2%	4.4%

Sales

Sales for the three months ended September 28, 2012 decreased $4.5 million, or 4.2%, to $100.8 million from $105.3 million in the comparable period of 2011. Sales for the nine months ended September 28, 2012 decreased $52.4 million, or 14.3%, to $313.4 million from $365.8 million in the comparable period of 2011. Sales for both the three and nine months ended September 28, 2012, reflects primarily 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. In addition, sales to FEI decreased in the third quarter of fiscal 2012 to approximately $1.2 million from $4.7 million in the second quarter of fiscal 2012, due to the termination of our relationship with FEI, as discussed above. We expect overall, sales to decrease slightly the fourth quarter of 2012 primarily due to the continued slow-down in the semiconductor industry.

Gross Profit

Cost of goods sold consists primarily of purchased materials, labor and overhead, including depreciation related to certain capital assets associated with the design and manufacture of products sold. Gross profit for the three months ended September 28, 2012, increased $1.5 million to $14.3 million, or 14.2% of sales, from $12.9 million, or 12.2% of sales, for the same period in 2011. Our gross margin for the three months ended September 28, 2012, increased from the comparable period in 2011 due primarily to the inclusion of AIT s higher margin products offset by lower factory utilization of certain of our non-AIT operating units due to lower revenues during the third quarter of 2012. Gross profit for the nine months ended September 28, 2012, decreased $5.2 million to $44.2 million, or 14.1% of sales, from $49.4 million, or 13.5% of sales, for the same period in 2011. Our gross margin for the nine months ended September 28, 2012, decreased from the comparable period in 2011 due primarily to lower material and direct labor costs as a percentage of gross revenues. We expect our gross profit to be slightly lower in the fourth quarter of 2012 due to expected lower revenues.

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Research and Development Expense

Research and development expense consists primarily of activities related to new component testing and evaluation, test equipment and fixture development, product design, and other product development activities. Research and development expense for the three months ended September 28, 2012 increased $0.1 million, or 4.6%, to $1.3 million, or 1.3% of sales, compared to $1.2 million, or 1.2% of sales in the comparable period in 2011 due to the timing of reassignment of existing resources to research and development activities . Research and development expense for the nine months ended September 28, 2012 decreased $0.3 million, or 6.8%, to $4.0 million, or 1.3% of sales, compared to $4.3 million, or 1.2% of sales in the comparable period in 2011. The decrease in expense for the nine month period from the comparable prior period is primarily due to reduced payroll and associated costs as a result of reduced headcount offset by the timing of reassignment of existing resources to research and development activities.

Sales and Marketing Expense

Sales and marketing expense consists primarily of salaries and commissions paid to our sales and service employees, salaries paid to our engineers who work with the sales and service employees to help determine the components and configuration requirements for new products and other costs related to the sales of our products. Sales and marketing expense for the three months ended September 28, 2012, increased $0.1 million to $1.8 million, or 1.8% of sales, compared to $1.7 million, or 1.6% of sales, in the comparable period of 2011. The increase in expense was primarily due to the inclusion of sales costs for AIT offset by decreased payroll and related benefit costs due to reduced fully employed and temporary headcount and a reduction in commission expense resulting from reduced revenues. Sales and marketing expense for the nine months ended September 28, 2012, decreased $0.5 million to $5.2 million, or 1.7% of sales, compared to $5.8 million, or 1.6% of sales, in the comparable period of 2011. The decrease in expense is primarily due to decreased payroll and related benefit costs due to reduced fully employed and temporary headcount and a reduction in commission expense resulting from reduced sales, offset slightly due to inclusion of sales expenses for AIT.

General and Administrative Expense

Our general and administrative expense has historically consisted of primarily of salaries and overhead associated with our administrative staff and professional fees. General and administrative expense increased approximately $5.0 million, or 88.4% for the three months ended September 28, 2012, to $10.6 million, or 10.5% of sales, compared with $5.6 million, or 5.3% of sales, in the comparable period of 2011. The increase when comparing the three months ended September 28, 2012, with the comparable period in 2011 is primarily due to (a) amortization of finite-lived intangibles associated with the AIT acquisition of approximately $1.8 million, (b) the inclusion of AIT s general and administrative expenses of $2.3 million and (c), an increase in stock compensation costs and an increase in headcount and related payroll costs in our Singapore office as we continue to expand our operations there. General and administrative expense increased approximately $5.5 million, or 31.5% for the nine months ended September 28, 2012, to $22.8 million, or 7.3% of sales, compared with $17.4 million, or 4.7% of sales, in the comparable period of 2011. The increase when comparing the nine months ended September 28, 2012, with the comparable period in 2011 is primarily due to the AIT expenses described above as well as increases from absorbing AIT s personnel, and an increase in stock compensation costs and an increase in headcount and related payroll costs in the Company s Singapore office as we continue to expand our operations there.

Acquisition costs

Acquisition costs were approximately $2.1 million, or 2.0% of sales, for the three months ended September 28, 2012, and approximately $2.4 million, or 0.8% of sales, for the nine months ended September 28, 2012. These acquisition costs are associated with our purchase of AIT and consist of professional fees and services in connection with the acquisition.

Interest and Other Income (Expense), net

Interest and other income (expense), net, for the three months ended September 28, 2012, was $(0.8) million compared to $(0.3) million in the comparable period of 2011 primarily due to the increase in debt in the third quarter of 2012 resulting from the acquisition of AIT. Interest and other income (expense), net, for the nine months ended September 28, 2012, was $(0.9) million compared to $(1.0) million in the comparable period of 2011, a decrease of $0.1 million, due to reductions in the average balance of our line of credit during the first two quarters of fiscal 2012, offset by an increase in the balance of our debt at the beginning of the third quarter of fiscal 2012 due to the acquisition of AIT.

Income Tax Provision

Our effective tax rate for the three months ended September 28, 2012, and September 30, 2011, was 24.0% and 21.8%, respectively. Our effective tax rate for the nine months ended September 28, 2012, and September 30, 2011, was 22.0% and 24.1%, respectively. The change in respective rates reflects, primarily, a change in the geographic distribution of our world-wide earnings in foreign jurisdictions with lower tax rates or tax holidays.

Liquidity and Capital Resources

We have required capital principally to fund our acquisitions and working capital needs, satisfy our debt obligations, maintain our equipment and purchase new capital equipment. As of September 28, 2012, we had cash of $58.3 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 September 28, 2012.

For the nine months ended September 28, 2012, we generated cash from operating activities of $29.1 million compared to $8.2 million for the comparable period of 2011. Operating cash flows generated in the nine months ended September 28, 2012, were from $6.9 million of net income; net non-cash activity, including depreciation and amortization of intangibles and debt issuance costs of $4.3 million and stock-based compensation of $4.1 million; and decreases in accounts receivable and inventory of $10.8 million and $14.6 million, respectively. These were offset by a decrease in accounts payable of $6.7 million, a decrease in accrued compensation and related benefits of $0.9 million, and a decrease in other liabilities of $2.0 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 nine months ended September 28, 2012, was $75.7 million, consisting of $0.4 million for capital expenditures and $75.3 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 nine months ended September 28, 2012, was $52.8 million compared to $(1.5) million for the comparable period of 2011. For the nine months ended September 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 senior lenders to raise additional funds through equity or debt financings. No assurance can be given that additional financing will be available or that, if available, such financing can be obtained on terms favorable to our stockholders and us.

In addition, the undistributed earnings of our foreign subsidiaries at September 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 September 28, 2012, we have approximately $33.0 million cash in our foreign subsidiaries.

Borrowing Arrangements

Prior to July 3, 2012, we had borrowing arrangements with Silicon Valley Bank under a Loan and Security Agreement (the Loan Agreement) which included a $25.0 million revolving credit facility (revolver), maturing on December 31, 2013, and an $8.0 million term loan (term loan), maturing on October 21, 2013. The aggregate amount of the revolver was secured by substantially all of our assets.

The interest rate on the revolver during the six months ended June 29, 2012 was 3.5%. Pursuant to the Loan Agreement, the term loan bore interest per annum at a variable rate equal to the greater of prime rate, as defined per the loan agreement, plus a margin of 75 basis points. During the six months ended and as of June 29, 2012, the interest rate on the outstanding term loan was 4.0%. We paid off the entire outstanding balance of the revolver during the second quarter of 2012 and the entire outstanding balance of the term loan on July 3, 2012 in connection with the New Revolving Credit facility discussed below.

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

The New Term Loan 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 outstanding principal amount of the New Term Loan due at the final maturity, which is July 3, 2016. The New 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. We 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 and their respective personal property assets (subject to certain exceptions and limitations).

At our option, borrowings under the New Term Loan and New Revolving Credit Facility (subject to certain limitations) bear interest at either a base rate or at the London Interbank Offered Rate (LIBOR) (with the LIBOR being adjusted for certain Eurocurrency reserve requirements, if any, as described in the Credit Agreement), plus, in each case, an applicable margin based on our consolidated leverage ratio. All loans described above made on 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 merger costs that will be treated as deferred interest and amortized over the life of the loan.

The Credit Agreement requires us to maintain a consolidated fixed charge coverage ratio (as defined in the Credit Agreement) of at least 1.75 to 1.00 initially and 2.00 to 1.00 from and after March 2013. The Credit Agreement requires us to maintain a consolidated leverage ratio (as defined in the Credit Agreement) no greater than 2.25 to 1.00 as of the end of the third quarter of fiscal 2012, stepping down to 2.00 to 1.00 as of the end of the fourth quarter of fiscal 2012 and the first quarter of fiscal 2013, 1.50 to 1.00 as of the end of the second and third quarters of fiscal 2013 and 1.25 to 1.00 as of the end of each fiscal quarter thereafter. The Credit Agreement also requires us to maintain minimum domestic cash of $20.0 million as of the last day of any fiscal quarter and $15.0 million as of the last day of any other month from September 1, 2012 through June 30, 2013 and $25.0 million as of the last day of any fiscal quarter and $20.0 million as of the last day of any other month after June 30, 2013. The Credit Agreement also includes other customary affirmative and negative covenants.

The Credit Agreement also 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 our 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) if the aggregate outstanding principal amount of the New Term Loan equals or exceeds $20.0 million and (b) 25% of excess cash flow if the aggregate outstanding principal amount of the New Term Loan equals or exceeds $10.0 million but is less than $20.0 million.

As of September 28, 2012, the Company s term loan and revolver balances were $39,083,000 and $38,752,000, respectively, which are net of debt issuance costs of $917,000 and $909,000, respectively. The Company has analyzed the Credit Agreement and determined that the outstanding balance of revolver debt should be classified as short-term. Total debt, net of issuance costs, as of September 28, 2012, was $77,835,000.

Capital Expenditures

Capital expenditures were $0.4 million in the nine months ended September 28, 2012. Capital expenditures only include AIT s capital expenditures from its acquisition date of July 3, 2012. The Company s anticipated capital expenditures for the remainder of 2012 are approximately $0.2 million, which we expect to finance through cash from operations.

Off-Balance Sheet Arrangements

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

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Contractual Obligations

Other than operating leases for certain equipment and real estate and purchase order commitments primarily for inventory, we have no off-balance sheet transactions, unconditional purchase obligations or similar instruments and, other than the arrangements described under Borrowing Arrangements above, are not a guarantor of any other entities debt or other financial obligations. The following table summarizes our future minimum lease payments, principal payments under debt obligations and our purchase obligations for the purchase of inventory as of September 28, 2012 (in thousands):

	2012	2013	2014	2015	2016	Thereafter	Total
Capital leases	$ 3	$ 10	$ 7	$	$	$	$ 20
Operating leases (1)	1,436	4,670	3,914	2,104	1,069	505	13,698
Borrowing Arrangement (3)	42,162	10,000	10,000	10,000	7,500		79,662
Purchase order commitments	25,539						25,539
Total (2)	$ 69,140	$ 14,680	$ 13,921	$ 12,104	$ 8,569	$ 505	$ 118,919

(1) Operating lease expense reflects (a) the lease for our headquarters facility in Hayward, California that expires in 2015; (b) the leases for manufacturing facilities in South San Francisco that expire in 2012 thru 2013 (c) the leases for manufacturing facilities in China, Singapore and the Philippines that expire in 2012 thru 2016; (d) the leases for manufacturing facilities in Austin, Texas that expire in 2016 and; (d) 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.

(2) As a result of the implementation of FASB s guidance regarding accounting for uncertainty in income taxes, we have recorded an additional tax liability of $0.1 million to offset the recognition of previously recorded excess tax benefits. Because of the uncertainty surrounding the future payment of these liabilities, the amount has been excluded from the table above.

(3) Amounts reflect our new Senior Secured Credit Facility, under which we borrowed $40.0 million under the New Term Loan and approximately $39.8 million under the New Revolving Credit Facility on July 3, 2012. The New Term Loan must be repaid in consecutive quarterly installments of $2.5 million and with the balance of the outstanding principal amount of the New Term Loan due at the final maturity, which is July 3, 2016. The New Revolving Credit Facility is available for the four-year period beginning on July 3, 2012. See Note 5. Borrowing Arrangements in Notes to Condensed Consolidated Financial Statements above.

Critical Accounting Policies, Significant Judgments and Estimates

Our condensed consolidated financial statements have been prepared in accordance with GAAP, which requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenue and expenses and related disclosure at the date of our financial statements. Estimates and judgments are reviewed on an on-going basis, including those related to sales, inventories, intangible assets, stock compensation and income taxes. The estimates and judgments are based 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 the 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 the purchase accounting, revenue recognition, inventory valuation, accounting for income taxes, valuation of intangible assets and goodwill and equity incentives to employees to be critical policies due to the estimates and judgments involved in each. Our significant accounting policies and critical estimates are disclosed in our 2011 Annual Report on Form 10-K as filed with the SEC on March 21, 2012. No material changes to our significant accounting policies and critical estimates have occurred subsequent to December 30, 2011.

Recently Issued Accounting Standards

See *Recently Issued Accounting Standards* in Note 1 of Notes to Condensed Consolidated Financial Statements.

ITEM 3. Quantitative and Qualitative Disclosures About Market Risk

Market risk represents the risk of changes in value of financial instruments caused by fluctuations in interest rates and foreign exchange rates.

Foreign Exchange Rates

Currently, a significant majority of our sales and arrangements with third-party suppliers provide for pricing and payment in U.S. 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

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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. We do not currently hedge our foreign exchange exposure. A hypothetical change of 10% in foreign currency exchange rates would not have a material effect on our consolidated financial condition or results of operations.

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 the periods presented above disclosed in our condensed consolidated financial statements included in this Quarterly Report.

Interest Rates

Our interest rate risk for the first nine months of 2012 related primarily to our outstanding debt which totaled $79.7 million as of September 28, 2012, and carries interest rates pegged to a base 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, assuming a continuance of our borrowing level as of September 28, 2012.

We invest our cash and cash equivalents primarily in the operation of the Company. We do not enter into investments for trading or speculative purposes. We believe that we do not have material exposure to changes in the fair value as a result of changes in interest rates due to the short term nature of our investments. Declines in interest rates may reduce future investment income. However, a hypothetical change of 100 basis points in the interest rate on our investments would not have a material effect on our consolidated financial condition or results of operations.

ITEM 4. Controls and Procedures

As required by Rule 13a-15(b) under the Securities Exchange Act of 1934 (the Exchange Act), management, including our Chief Executive Officer and Chief Financial Officer, conducted an evaluation as of the end of the period covered by this report, of the effectiveness of our disclosure controls and procedures as defined in Exchange Act Rule 13a-15(e). Based upon our evaluation, we concluded that our disclosure controls and procedures were effective as of September 28, 2012.

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

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

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PART II. OTHER INFORMATION

ITEM 1. Legal Proceedings

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

ITEM 1A. Risk Factors

The 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 in the remainder 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, two customers accounted for 74% of our sales for the nine months ended September 28, 2012, and three customers accounted for 68%, 72% and 79% of our sales for fiscal years 2011, 2010 and 2009, respectively. We expect that our sales will continue to be concentrated among a small number of customers after our merger with AIT on July 3, 2012. 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 and AIT s 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 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 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 is not expected to 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 and AIT s 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 are posing 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 debt agreements 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 existing credit facility and entered into a new credit agreement with Silicon Valley Bank, U.S. Bank National Association and HSBC Bank. The new credit agreement provides 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 merger with AIT and repay Silicon Valley Bank as lender under the existing credit facility. As of September 28, 2012, the long-term portion of our outstanding indebtedness, net of debt issuance costs, under our new credit facility was $29.3 million, and the short-term portion was $48.5 million.

Our new credit agreement contains certain reporting and financial covenants that must be met on a quarterly basis in order for us to remain in compliance. The covenants also 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.

We cannot assure you that we will meet these financial covenants in subsequent periods. Under our new credit agreement, the bank has the right to declare all obligations immediately due and payable if we are in default. If we are unable to meet any covenants, we cannot assure you that the bank will grant waivers or amend the covenants, or that the bank will not terminate the agreement, preclude further borrowings or require us to immediately repay any outstanding borrowings. 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. Forced prepayment of some or all of our indebtedness would reduce our available cash balances and have an adverse impact on our operating and financial performance.

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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. 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. 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.

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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 $0.2 million and $0.4 million for the three and nine months ended September 28, 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 and issued 4.5 million shares of our common stock in connection with our merger with 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;
- 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;
- 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 $58.3 million in cash and cash equivalents and $0.2 million available under our new revolving credit facility for future borrowings as of September 28, 2012. In addition, as of September 28, 2012, $33.0 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 on 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;
- disruptions or delays in the manufacturing of our products or in the supply of components or raw materials that are incorporated into or used to manufacture our products, thereby causing us to delay the shipment of products;
- decreased margins for several or more quarters following the introduction of new products, especially as we introduce new subsystems;
- delays in ramp-up in production, low yields or other problems experienced at our manufacturing facilities in China;
- changes in design-to-delivery cycle times;
- inability to reduce our costs quickly in step with reductions in our prices or in response to decreased demand for our products;
- changes in our mix of products sold;
- write-offs of excess or obsolete inventory;
- 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 merger with AIT, we acquired a manufacturing facility in Cebu, Philippines. The carrying amount of our assets in Asia was $67.0 million as of December 30, 2011.

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;

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.

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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.

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.

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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 merger with AIT 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 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;

- 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 in its early stages, 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 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.

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 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.

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.

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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 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.

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.

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 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.

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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;
- 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 prohibits 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 2. Unregistered Sales of Equity Securities and Use of Proceeds

On May 18, 2012, we entered into an Agreement and Plan of Merger (the Merger Agreement) for the acquisition of American Integration Technologies, LLC (AIT) from its sole member, AIT Holding Company LLC (AIT Holding). Upon completion of the merger on July 3, 2012 and pursuant to the Merger Agreement, we issued 4,500,000 shares of our common stock to AIT Holding, of which 745,920 shares were placed in escrow as security for AIT Holding s indemnification obligations during the escrow period provided in the Merger Agreement. The shares were issued as part of the consideration we gave to AIT Holding for our acquisition of AIT. The shares were issued in a private placement in reliance on the exemption from registration pursuant to Section 4(2) of the Securities Act of 1933, as amended. No general solicitation was involved in connection with the offer and sale of such shares, and we relied upon the representations made by AIT Holding pursuant to the Merger Agreement in determining that such exemption was available.

ITEM 3. Defaults Upon Senior Securities

None.

ITEM 4. Mine Safety Disclosures

Not Applicable.

ITEM 5. Other Information

None.

ITEM 6. Exhibits

(a) Exhibits

The following exhibits are filed with this current Report on Form 10-Q for the quarter ended September 28, 2012:

Exhibit Number	Description
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.

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Exhibit Number	Description
32.1	Certification of the Chief Executive Officer and the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Calculation Linkbase Document
101.DEF	XBRL Taxonomy Definition Linkbase Document
101.LAB	XBRL Taxonomy Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

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SIGNATURES

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

ULTRA CLEAN HOLDINGS, INC.
(Registrant)

Date: November 7, 2012

By: /s/ Clarence L. Granger
Name: **Clarence L. Granger**
Chairman and Chief Executive Officer
Title: **(Principal Executive Officer and duly authorized signatory)**

Date: November 7, 2012

By: /s/ Kevin C. Eichler
Name: **Kevin C. Eichler**
Title: **Chief Financial Officer**

(Principal Financial Officer and duly authorized signatory)

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