UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

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

For the quarterly period ended June 25, 2021

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

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common stock, par value $0.001 per share	UCTT	The Nasdaq Stock Market, LLC

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes ☒ No ☐

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

Large accelerated filer	☒	Accelerated filer	☐
Non-accelerated filer	☐	Smaller reporting company	☐
		Emerging growth company	☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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

Number of shares outstanding of the issuer's common stock as of July 23, 2021: 44.7 million

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 millions, except par value)	June 25, 2021		December 25, 2020	
ASSETS				
Current assets:				
Cash and cash equivalents	$	451.4	$	200.3
Accounts receivable, net of allowance for doubtful accounts of $0.5 and $0.3 at June 25, 2021 and December 25, 2020, respectively		210.4		145.5
Inventories		302.0		180.4
Prepaid expenses and other current assets		35.5		18.9
Total current assets		999.3		545.1
Property, plant and equipment, net		218.3		159.2
Goodwill		257.2		171.1
Intangibles assets, net		270.5		160.5
Deferred tax assets, net		23.3		23.5
Operating lease right-of-use assets		69.8		37.8
Other non-current assets		8.3		5.3
Total assets	$	1,846.7	$	1,102.5
LIABILITIES AND STOCKHOLDERS' EQUITY				
Current liabilities:				
Bank borrowings	$	21.6	$	7.4
Accounts payable		231.0		121.3
Accrued compensation and related benefits		43.9		34.5
Operating lease liabilities		16.0		11.7
Other current liabilities		42.5		26.3
Total current liabilities		355.0		201.2
Bank borrowings, net of current portion		573.1		261.6
Deferred tax liabilities		45.5		33.6
Operating lease liabilities		54.3		31.1
Other liabilities		30.1		23.8
Total liabilities		1,058.0		551.3
Commitments and contingencies (See Note 10)				
Equity:				
UCT stockholders' equity:				
Preferred stock — $0.001 par value, 10.0 shares authorized; none outstanding		—		—
Common stock — $0.001 par value, 90.0 shares authorized; 44.7 shares and 40.6 shares issued and outstanding at June 25, 2021 and December 25, 2020, respectively		0.1		0.1
Additional paid-in capital		506.1		312.8
Common shares held in treasury, at cost, 0.6 shares at June 25, 2021 and December 25, 2020		(3.3)		(3.3)
Retained earnings		260.0		217.9
Accumulated other comprehensive gain		4.6		5.1
Total UCT stockholders' equity		767.5		532.6
Noncontrolling interests		21.2		18.6
Total equity		788.7		551.2
Total liabilities and stockholders' equity	$	1,846.7	$	1,102.5

(See accompanying Notes to Condensed Consolidated Financial Statements)

ULTRA CLEAN HOLDINGS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

(In millions, except per share amounts)	Three Months Ended June 25, 2021	Three Months Ended June 26, 2020	Six Months Ended June 25, 2021	Six Months Ended June 26, 2020
Revenues:				
Products	$ 442.5	$ 277.9	$ 788.1	$ 537.3
Services	72.7	66.9	144.7	128.4
Total revenues	515.2	344.8	932.8	665.7
Cost of revenues:				
Products	367.9	229.3	651.5	444
Services	47.4	41.6	94.5	82.1
Total cost of revenues	415.3	270.9	746.0	526.1
Gross profit	99.9	73.9	186.8	139.6
Operating expenses:				
Research and development	6.1	3.8	10.3	7.2
Sales and marketing	12.7	5.9	20.3	11.7
General and administrative	49.2	33.4	83.9	67.3
Total operating expenses	68.0	43.1	114.5	86.2
Income from operations	31.9	30.8	72.3	53.4
Interest income	0.1	0.2	0.2	0.5
Interest expense	(7.1)	(3.8)	(10.7)	(9.0)
Other income (expense), net	(0.7)	0.6	(5.0)	(2.1)
Income before provision for income taxes	24.2	27.8	56.8	42.8
Provision for income taxes	6.2	5.7	13.2	10.2
Net income	18.0	22.1	43.6	32.6
Less: Net income attributable to noncontrolling interests	0.9	0.8	1.5	1.9
Net income attributable to UCT	$ 17.1	$ 21.3	$ 42.1	$ 30.7
Net income per share attributable to UCT common stockholders:				
Basic	$ 0.39	$ 0.53	$ 1.00	$ 0.77
Diluted	$ 0.39	$ 0.52	$ 0.98	$ 0.75
Shares used in computing net income per share:				
Basic	43.3	40.1	41.9	39.9
Diluted	44.3	40.8	42.9	40.8

(See accompanying Notes to Condensed Consolidated Financial Statements)

ULTRA CLEAN HOLDINGS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(Unaudited)

(In millions)	**Three Months Ended**		**Six Months Ended**	
	June 25, 2021	**June 26, 2020**	**June 25, 2021**	**June 26, 2020**
Net income	$ 18.0	$ 22.1	$ 43.6	$ 32.6
Other comprehensive gain (loss):				
Change in cumulative translation adjustment	2.2	1.2	(0.6)	(2.0)
Change in fair value of derivatives	0.8	0.1	0.1	—
Total other comprehensive gain (loss)	3.0	1.3	(0.5)	(2.0)
Other comprehensive income, attributable to noncontrolling interests	0.9	0.8	1.5	1.9
Comprehensive income attributable to UCT	$ 20.1	$ 22.6	$ 41.6	$ 28.7

(See accompanying Notes to Condensed Consolidated Financial Statements)

ULTRA CLEAN HOLDINGS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Six Months Ended	
(In millions)	**June 25, 2021**	**June 26, 2020**
Cash flows from operating activities:		
Net income	$ 43.6	$ 32.6
Adjustments to reconcile net income to net cash provided by operating activities (excluding assets acquired and liabilities assumed):		
Depreciation and amortization	15.1	12.6
Amortization of intangible assets	14.4	9.9
Stock-based compensation	7.2	6.2
Amortization of debt issuance costs	1.4	0.9
Gain from insurance proceeds	(7.3)	(0.6)
Deferred income taxes	0.9	—
Change in the fair value of financial instruments and earn-out liability	13.0	4.2
Others	0.2	0.3
Changes in assets and liabilities, net of effects of acquisitions:		
Accounts receivable	(13.3)	(26.0)
Inventories	(41.3)	(21.5)
Prepaid expenses and other current assets	(0.3)	(1.6)
Other non-current assets	(0.7)	0.3
Accounts payable	80.8	6.5
Accrued compensation and related benefits	(1.1)	2.8
Income taxes payable	0.9	4.9
Operating lease assets and liabilities	(0.6)	(0.5)
Other liabilities	3.8	2.2
Net cash provided by operating activities	116.7	33.2
Cash flows from investing activities:		
Purchases of property, plant and equipment	(22.7)	(17.0)
Proceeds from sale of equipment, including insurance proceeds	7.4	2.9
Settlement of forward contracts in conjunction with the acquisition of Ham-Let	(10.4)	—
Acquisition of business, net of cash acquired	(344.8)	—
Net cash used in investing activities	(370.5)	(14.1)
Cash flows from financing activities:		
Proceeds from bank borrowings	371.5	60.5
Proceeds from issuance of common stock	193.1	0.3
Principal payments on bank borrowings and finance leases	(43.4)	(26.3)
Payments of debt issuance costs	(8.9)	—
Payments of dividends to a joint venture shareholder	(0.1)	—
Employees' taxes paid upon vesting of restricted stock units	(7.0)	(1.4)
Net cash provided by financing activities	505.2	33.1
Effect of exchange rate changes on cash and cash equivalents	(0.3)	(0.3)
Net increase in cash and cash equivalents	251.1	51.9
Cash and cash equivalents at beginning of period	200.3	162.5
Cash and cash equivalents at end of period	451.4	$ 214.4
Supplemental cash flow information:		
Income taxes paid, net of income tax refunds	$ 10.8	$ 4.6
Interest paid	$ 8.1	$ 9.2
Non-cash investing and financing activities:		
Property, plant and equipment purchased included in accounts payable and other liabilities	$ 4.7	$ 2.5

(See accompanying Notes to Condensed Consolidated Financial Statements)

ULTRA CLEAN HOLDINGS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(Unaudited)

Three Months Ended June 25, 2021

(In millions)	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Treasury shares Shares	Treasury shares Amount	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity of UCT	Noncontrolling Interests	Total Equity
Balance March 26, 2021	40.6	$ 0.1	$ 316.3	0.6	$ (3.3)	$ 242.9	$ 1.6	$ 557.6	$ 19.0	$ 576.6
Issuance of common stock in public offering	3.7	—	192.8	—	—	—	—	192.8	—	192.8
Issuance under employee stock plans	0.6	—	0.3	—	—	—	—	0.3	—	0.3
Employees' taxes paid upon vesting of restricted stock units	(0.1)	—	(7.0)	—	—	—	—	(7.0)	—	(7.0)
Stock-based compensation expense	—	—	3.7	—	—	—	—	3.7	—	3.7
Noncontrolling interests from acquisition of Ham-Let	—	—	—	—	—	—	—	—	1.2	1.2
Net income	—	—	—	—	—	17.1	—	17.1	0.9	18.0
Dividend payments to a joint venture shareholder	—	—	—	—	—	—	—	—	0.1	0.1
Other comprehensive loss	—	—	—	—	—	—	3.0	3.0	—	3.0
Balance June 25, 2021	44.8	$ 0.1	$ 506.1	0.6	$ (3.3)	$ 260.0	$ 4.6	$ 767.5	$ 21.2	$ 788.7

Six Months Ended June 25, 2021

(In millions)	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Treasury shares Shares	Treasury shares Amount	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity of UCT	Noncontrolling Interests	Total Equity
Balance December 25, 2020	40.6	$ 0.1	$ 312.8	0.6	$ (3.3)	$ 217.9	$ 5.1	$ 532.6	$ 18.6	$ 551.2
Issuance of common stock in public offering	3.7	—	192.8	—	—	—	—	192.8	—	192.8
Issuance under employee stock plans	0.6	—	0.3	—	—	—	—	0.3	—	0.3
Employees' taxes paid upon vesting of restricted stock units	(0.1)	—	(7.0)	—	—	—	—	(7.0)	—	(7.0)
Stock-based compensation expense	—	—	7.2	—	—	—	—	7.2	—	7.2
Noncontrolling interests from acquisition of Ham-Let	—	—	—	—	—	—	—	—	1.2	1.2
Net income	—	—	—	—	—	42.1	—	42.1	1.5	43.6
Dividend payments to a joint venture shareholder	—	—	—	—	—	—	—	—	(0.1)	(0.1)
Other comprehensive loss	—	—	—	—	—	—	(0.5)	(0.5)	—	(0.5)
Balance June 25, 2021	44.8	$ 0.1	$ 506.1	0.6	$ (3.3)	$ 260.0	$ 4.6	$ 767.5	$ 21.2	$ 788.7

	Three Months Ended June 26, 2020									
	Common Stock			Treasury shares						
(In millions)	Shares	Amount	Additional Paid-in Capital	Shares	Amount	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity of UCT	Noncontrolling Interests	Total Equity
Balance March 27, 2020	39.9	$ 0.1	$ 304.0	0.6	$ (3.3)	$ 149.7	$ (4.6)	$ 445.9	$ 16.9	$ 462.8
Issuance under employee stock plans	0.5	—	0.3	—	—	—	—	0.3	—	0.3
Stock-based compensation expense	—	—	3.1	—	—	—	—	3.1	—	3.1
Taxes paid related to net share settlement of equity awards	(0.1)	—	(1.4)	—	—	—	—	(1.4)	—	(1.4)
Net income	—	—	—	—	—	21.3	—	21.3	0.8	22.1
Other comprehensive loss	—	—	—	—	—	—	1.3	1.3	—	1.3
Balance June 26, 2020	40.3	$ 0.1	$ 306.0	0.6	$ (3.3)	$ 171.0	$ (3.3)	$ 470.5	$ 17.7	$ 488.2

	Six Months Ended June 26, 2020									
	Common Stock			Treasury shares						
(In millions)	Shares	Amount	Additional Paid-in Capital	Shares	Amount	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity of UCT	Noncontrolling Interests	Total Equity
Balance December 27, 2019	39.9	$ 0.1	$ 300.9	0.6	$ (3.3)	$ 140.3	$ (1.3)	$ 436.7	$ 15.8	$ 452.5
Issuance under employee stock plans	0.5	—	0.3	—	—	—	—	0.3	—	0.3
Stock-based compensation expense	—	—	6.2	—	—	—	—	6.2	—	6.2
Taxes paid related to net share settlement of equity awards	(0.1)	—	(1.4)	—	—	—	—	(1.4)	—	(1.4)
Net income	—	—	—	—	—	30.7	—	30.7	1.9	32.6
Other comprehensive loss	—	—	—	—	—	—	(2.0)	(2.0)	—	(2.0)
Balance June 26, 2020	40.3	$ 0.1	$ 306.0	0.6	$ (3.3)	$ 171.0	$ (3.3)	$ 470.5	$ 17.7	$ 488.2

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Organization — Ultra Clean Holdings, Inc., (the "Company" or "UCT") a Delaware corporation, was founded in November 2002 and became a publicly traded company on the NASDAQ Global Market in March 2004. Ultra Clean Holdings, Inc. is a leading developer and supplier of critical subsystems, components and parts, and ultra-high purity cleaning and analytical services primarily for the semiconductor industry. UCT offers its customers an integrated outsourced solution for major subassemblies, improved design-to-delivery cycle times, design for manufacturability, prototyping and part and component manufacturing, as well as tool chamber parts cleaning and coating, and micro-contamination analytical services. The Company operates and reports results for two operating segments: Products and Services (formerly known as "SPS" and "SSB", respectively). The Company's Products business primarily designs, engineers and manufactures production tools, components and parts, and modules and subsystems for the semiconductor and display capital equipment markets. Products include chemical delivery modules, frame assemblies, gas delivery systems, fluid delivery systems, precision robotics, process modules as well as other high-level assemblies. The Company's Services business provides ultra-high purity parts cleaning, process tool part recoating, surface encapsulation and high sensitivity micro contamination analysis primarily for the semiconductor device makers and wafer fabrication equipment markets.

On March 31, 2021, the Company completed the acquisition of Ham-Let (Israel-Canada) Ltd. ("Ham-Let"), a public company organized under the laws of the State of Israel (not a U.S. registrant), pursuant to an Agreement and Plan of Merger (the "Merger Agreement"), for approximately $362.9 million, which included $273.5 million of equity value plus $91.3 million of net debt offset by the settlement of an existing relationship of $1.9 million. Ham-Let engages in the development, manufacturing and marketing of a process valves, fittings and hoses for the control and monitoring of industrial systems in a variety of markets, including the Semiconductor market. These products are primarily used in ultra clean gas transportation systems for the transmission of liquids and gases. The Company's primary reason for this acquisition was to broaden UCT's relevance to the semiconductor equipment market and provide access to a new set of customers in the semiconductor fab infrastructure market. See Note 2 to the Company's Condensed Consolidated Financial Statements for further information about the acquisition of Ham-Let.

On April 13, 2021, the Company completed an underwritten public offering of 3,181,818 shares of the Company's common stock, in which the Company received net proceeds of approximately $167.6 million, after deducting the underwriting discounts and offering expenses payable by the Company. On April 29, 2021, the Underwriters exercised the option to purchase an additional 477,272 shares of the Company's common stock for approximately $25.2 million in cash. The Company intends to use the net proceeds from this offering for general corporate purposes, which may include working capital, sales and marketing activities, product development, general and administrative matters, and capital expenditures. The Company may use a portion of the net proceeds to acquire complementary businesses, products, services, or technologies, although it has no agreements, commitments, or plans for any specific acquisitions at this time.

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 majority-owned subsidiaries and have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP"). This financial information reflects all adjustments which are, in the opinion of the Company, normal, recurring and necessary for the fair financial statement presentation for the dates and periods presented. Certain information and footnote disclosures normally included in our annual financial statements, prepared in accordance with GAAP, have been condensed or omitted. The Company's December 25, 2020 balance sheet data were derived from its audited financial statements as of that date.

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.

Principles of Consolidation — The Company's Condensed Consolidated Financial Statements include the accounts of the Company and its majority-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated upon consolidation.

Noncontrolling interests — Noncontrolling interests are recognized to reflect the portion of the equity of the majority-owned subsidiaries which is not attributable, directly or indirectly, to the controlling stockholder. The Company's consolidated entities include partially-owned entities, which are (1) Cinos Co., Ltd ("Cinos Korea"), a South Korean company that provides outsourced cleaning and recycling of precision parts for the semiconductor industry through its operating facilities in South Korea, (2) Cinos Xian Clean Technology, Ltd. ("Cinos China"), a Chinese entity that is partially owned by Cinos Korea and (3) Rovac Pte, Ltd ("Rovac"), a Singaporean Company that is majority owned by Ham-Let. The interest held by others in Cinos Korea, in Cinos China and in Rovac are presented as noncontrolling interests in the accompanying Condensed Consolidated Financial Statements. The noncontrolling interests will continue to be attributed its share of gains and losses even if that attribution results in a deficit noncontrolling interests' balance.

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 the Chief Executive Officer. The Company operates and reports two segments: Products and Services. Ham-Let's business activities are similar to Products and, therefore, were included within this segment. See Note 16 of the Notes to the Condensed Consolidated Financial Statements.

Foreign Currency Translation and Remeasurement — The functional currency of the majority of the Products division's foreign subsidiaries is the U.S. dollar. The functional currency of the Service division's foreign subsidiaries is the local currency except for that of its Singapore and Scotland entities, which is the U.S. dollar.

For the Company's foreign subsidiaries where the local currency is the functional currency, the Company translates the financial statements of these subsidiaries to U.S. dollars using month-end exchange rates for assets and liabilities, and average exchange rates for revenue, costs and expenses. Translation gains and losses are recorded in accumulated other comprehensive income (AOCI) within UCT stockholders' equity. For the Company's foreign subsidiaries where the U.S. dollar is the functional currency, any gains and losses resulting from the translation of the assets and liabilities of these subsidiaries are recorded in other income (expense), net.

Use of Estimates — The presentation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosures of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Such estimates and assumptions include inventory valuation, accounting for income taxes, business combinations, valuation of goodwill, intangible assets and long-lived assets. The Company bases its estimates and judgments on historical experience and on various other assumptions that it believes are reasonable under the circumstances. However, future events are subject to change and the best estimates and judgments routinely require adjustments. Actual amounts may differ from those estimates.

Cash and Cash Equivalents — The Company considers currency on hand, demand deposits, time deposits, and all highly liquid investments with an original maturity of three months or less at the date of purchase to be cash and cash equivalents. Cash and cash equivalents are held in various financial institutions in the United States and internationally.

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 and provides services 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.

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

	Three Months Ended		**Six Months Ended**	
	June 25, 2021	**June 26, 2020**	**June 25, 2021**	**June 26, 2020**
Lam Research Corporation	38.3%	39.6%	41.6%	42.0%
Applied Materials, Inc.	24.1%	25.8%	23.9%	24.7%
Total	62.4%	65.4%	65.5%	66.7%

Two customers' accounts receivable balances, Lam Research Corporation and Applied Materials, Inc., were individually greater than 10% of accounts receivable as of June 25, 2021, in the aggregate approximately 38.0% of accounts receivable. Three of the Company's customers account receivable balances, Lam Research Corporation, Applied Materials, Inc. and ASM International, Inc., were individually greater than 10.0% of total accounts receivable as of December 25, 2020, and in the aggregate approximately 67.3% of total accounts receivable.

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

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

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

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

Derivative Financial Instruments — The Company uses forward contracts to hedge a portion of, but not all, existing and anticipated foreign currency denominated transactions typically expected to occur within 24 months. The purpose of the hedge is to mitigate the effect of exchange rate fluctuations on certain foreign currency denominated costs and eventual cash flows. The Company recognizes derivative instruments as either assets or liabilities in the accompanying Condensed Consolidated Balance Sheets at fair value. The Company records changes in the fair value of the derivatives in the accompanying Condensed Consolidated Statements of Operations as other income (expense), net, or as a component of AOCI in the accompanying Condensed Consolidated Balance Sheets.
Inventories — Inventories are stated at the lower of cost (which approximates actual cost on a first-in, first-out basis) or net realizable value. The Company evaluates the valuation of all inventories, including raw materials, work-in-process, finished goods and spare parts on a periodic basis. Obsolete inventory or inventory in excess of management's estimated usage is written down to its estimated market value less costs to sell, if less than its cost. Inherent in the estimates of market value are management's estimates related to economic trends, future demand for products, and technological obsolescence of the Company's products. Inventory write downs inherently involve judgments based on assumptions about expected future demand and the impact of market conditions on those assumptions. Although the Company believes that the assumptions it used in estimating inventory write downs are reasonable, significant changes in any one of the assumptions in the future could produce a significantly different result. There can be no assurances that future events and changing market conditions will not result in significant increases in inventory write downs.

Property, Plant and Equipment, net — Property, plant and equipment are stated at cost, or, in the case of equipment under finance leases, the present value of future minimum lease payments at inception of the related lease. The Company also capitalizes interest on borrowings related to eligible capital expenditures. Capitalized interest is added to the cost of the qualified assets and is subject to depreciation. Depreciation and amortization are computed using the straight-line method over the lesser of the estimated useful lives of the assets or the terms of the leases. Useful lives range from three to fifty years. Direct costs incurred to develop software for internal use are capitalized and amortized over an estimated useful life of three or ten years. Costs related to the design or maintenance of internal use software are expensed as incurred. Capitalized internal use software is included in computer equipment and software.

Long-lived Assets — The Company evaluates long-lived assets for impairment whenever events or changes in circumstances indicate the carrying value of an asset group may not be recoverable. The Company assesses the fair value of the assets based on the amount of the undiscounted future cash flows that the assets are expected to generate and recognizes an impairment loss when estimated undiscounted future cash flows 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.

The Company assessed the useful lives of its long-lived assets, including property, plant and equipment as well as its intangible assets as of June 25, 2021 and concluded that no impairment was required.

Leases — The Company determines if an arrangement is a lease, or contains a lease, at the inception of the arrangement. When the Company determines the arrangement is a lease, or contains a lease, at lease inception, it then determines whether the lease is an operating lease or a finance lease. Operating and finance leases with lease terms of one year or greater result in the Company recording a right-of-use (ROU) asset and lease liability on its balance sheet. ROU assets represent the Company's right to use an underlying asset for the lease term and lease liabilities represent its obligation to make lease payments arising from the lease. Operating and finance lease ROU assets and liabilities are initially recognized based on the present value of lease payments over the lease term. In determining the present value of lease payments, the Company uses the implicit interest rate if readily determinable or when the implicit interest rate is not readily determinable, the Company uses its incremental borrowing rate. The incremental borrowing rate is not a commonly quoted rate and is derived through a combination of inputs including the Company's credit rating and the impact of full collateralization. The incremental borrowing rate is based on the Company's collateralized borrowing capabilities over a similar term of the lease payments. The Company utilizes the consolidated group incremental borrowing rate for all leases. The operating lease ROU asset also includes any lease payments made and excludes any lease incentives. Specific lease terms used in computing the ROU assets and lease liabilities may include options to extend or terminate the lease when the Company believes it is reasonably certain that it will exercise that option. Lease expense for operating lease payments is recognized on a straight-line basis over the lease term. As allowed by the guidance, the Company has elected not to recognize ROU assets and lease liabilities that arise from short-term (12 months or less) leases for any class of underlying asset. Operating leases are included in operating lease ROU assets, other current liabilities, and long-term operating lease liabilities on the Company's consolidated balance sheet. The Company's finance leases at June 25, 2021 and December 25, 2020 were not significant.

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

Deferred Debt Issuance Costs — Debt issuance costs incurred in connection with obtaining debt financing are deferred and presented as a direct deduction from Bank Borrowings in the accompanying Condensed Consolidated Balance Sheets. Deferred costs are amortized on an effective interest method basis over the contractual term.

Defined Benefit Pension Plan — The Company has a noncontributory defined benefit pension plan covering substantially all of the employees of one of its foreign entities upon termination of their employee services. For further discussion of the Company's defined benefit pension plan see Note 9 of the Notes to the Condensed Consolidated Financial Statements.

Revenue Recognition — Revenue is recognized when control of the promised goods or services is transferred to the Company's customers, in an amount that reflects the consideration the Company expects to be entitled to in exchange for those goods or services. The Company performs the following five steps to determine when to recognize revenue: (1) identification of the contract(s) with customers, (2) identification of the performance obligations in the contract, (3) determination of the transaction price, (4) allocation of the transaction price to the performance obligations in the contract, and (5) recognition of revenue when, or as, a performance obligation is satisfied.

Shipping and Handling Costs — Shipping and handling costs are included as a component of cost of revenues.

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

Stock-Based Compensation Expense — The Company maintains stock-based compensation plans which allow for the issuance of equity-based awards to executives and certain employees. These equity-based awards include restricted stock awards and restricted stock units. The Company also maintains an employee stock purchase plan ("ESPP") that provides for the issuance of shares to all eligible employees of the Company at a discounted price.

Government Subsidies — Government subsidies are recognized where there is reasonable assurance that the subsidy will be received and all attached conditions will be complied with. When the subsidy relates to an expense item, it is recognized as income on a systematic basis over the periods that the related costs, for which it is intended to compensate, are expensed. When the subsidy relates to an asset, it is recognized as income in equal amounts over the expected useful life of the related asset. When the subsidy does not relate to specific expenses or assets, the income is accounted for in the period where there is reasonable assurance that the subsidy will be received.

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

Income tax positions must meet a more likely than not recognition threshold to be recognized. The Company recognizes tax benefits from uncertain tax positions only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such positions are then measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. The Company recognizes potential accrued interest and penalties related to unrecognized tax benefits within the consolidated statements of income as income tax expense.

The Company accounts for Global Intangible Low-Taxed Income ("GILTI") as period costs when incurred.

Net Income per Share — Basic net income per share is computed by dividing net income by the weighted average number of shares outstanding for the period. Diluted net income per share is calculated by dividing net income by the weighted average number of common shares outstanding and common equivalent shares from dilutive restricted stock using the treasury stock method, except when such shares are anti-dilutive. See Note 15 of the Notes to the Condensed Consolidated Financial Statements.

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

Accounting Standard Not Yet Adopted

In March 2020, the FASB issued ASU 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financing Reporting*. This guidance provides temporary optional expedients and exceptions through December 31, 2022 to the U.S. GAAP guidance on contract modifications to ease the financial reporting burdens of the expected market transition from the London Interbank Offered Rate (LIBOR) and other interbank offered rates to alternative reference rates. The Company expects to adopt this guidance and apply it to reference rate reform effected arrangement modifications.

Although there are several other new accounting pronouncements issued by the FASB, the Company does not believe any of these accounting pronouncements had or will have a material impact on its Consolidated Financial Statements.

2. BUSINESS COMBINATIONS

Ham-Let

On March 31, 2021, the Company acquired all of the outstanding common shares of Ham-Let for total purchase consideration of $362.9 million, which included $273.5 million of equity value plus $91.3 million of net debt offset by the settlement of an existing relationship of $1.9 million (vendor of UCT). In addition, the Company incurred approximately $10.5 million of costs related to the acquisition ($1.0 million incurred in fiscal year 2020 and $9.5 million was charged to operations for the six months ended June 25, 2021). Ham-Let engages in the development, manufacturing and marketing of a process valves, fittings and hoses for the control and monitoring of industrial systems in a variety of markets, including the Semiconductor market. These products are primarily used in ultra clean gas transportation systems for the transmission of liquids and gases. The Company's primary reason for this acquisition was to broaden UCT's relevance to the semiconductor equipment market and provide access to a new set of customers in the semiconductor fab infrastructure market. The Company borrowed an additional $355.0 million from its existing Credit Facility to finance the acquisition. See further discussion in Note 7 to the Notes to Condensed Consolidated Financial Statements.

In December 2020, the Company announced the acquisition of Ham-Let. The expected cash consideration for the equity valuation at that time was approximately 934.7 million Israeli New Shekel ("ILS") or $287.1 million in equity value. In order to hedge against the foreign currency fluctuation of the USD against ILS at the settlement date, UCT received Board of Director approval to enter into forward hedge contracts to buy ILS. In January 2021, UCT completed the purchase of forward hedge contracts of 905.8 million ILS to lock in the $283.9 million cash that was delivered at the closing of the Ham-Let acquisition. US GAAP requires the recording of the purchase price of the acquired entity at the spot rate on acquisition date, rather than the cash amount hedged and paid. The variance between the cash paid of $283.9 million and the spot value at acquisition of $273.5 million was a loss of $10.4 million and was recorded in the accompanying Condensed Consolidated Statements of Operations as other income (expense), net for the three and six month periods ended June 25, 2021.

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

The allocation of the purchase price is preliminary pending the completion of various analyses and the finalization of estimates. 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, primarily inventories, accounts receivable, property, plant and equipment, operating lease right-of-use assets and related operating lease liabilities, income and other taxes, intangible assets 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. Assets acquired, liabilities assumed and noncontrolling interest are recorded based on valuations derived from estimated fair value assessments and assumptions used by the Company. Thus, the provisional measurements of fair value discussed above are subject to change. The Company expects to finalize the valuation as soon as practicable, but not later than one year from the acquisition date. While the Company believes that its estimates and assumptions underlying the valuations are reasonable, different estimates and assumptions could result in different valuations assigned to the individual assets acquired, liabilities assumed and noncontrolling interest, and the resulting amount of goodwill.

The following table summarizes the preliminary fair values of assets acquired, liabilities assumed and noncontrolling interest at the date of acquisition (in millions):

Cash and cash equivalents	$	20.1
Accounts receivable		51.6
Inventories		80.3
Prepaid expenses and other assets		17.3
Property, plant and equipment		52.1
Goodwill		86.1
Purchased intangible assets		124.4
Deferred tax assets		0.8
Operating lease right-of-use assets		27.7
Other non-current assets		2.2
Total assets acquired		462.6
Bank borrowings		(5.0)
Accounts payable		(30.8)
Accrued compensation and related benefits		(10.5)
Other current liabilities		(12.4)
Deferred tax liabilities		(12.0)
Operating lease liabilities		(23.8)
Other liabilities		(4.0)
Total liabilities assumed		(98.5)
Noncontrolling interests		(1.2)
Total consideration transferred	$	362.9

	Useful Life		**Purchased Intangible Assets**
	(In years)		**(In millions)**
Customer relationships	10	$	73.9
IP Knowhow	10-15		35.5
Trade names	5		9.8
Backlog	1		5.2
Total purchased intangible assets		$	124.4

Goodwill is not amortized but is reviewed for impairment at least annually and whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. The results of operations for the Company for the three and six months ended June 25, 2021 include operating activities for Ham-Let since its acquisition date of March 31, 2021. For the three and six months ended June 25, 2021, net sales of approximately $58.2 million attributable to Ham-Let were included in the consolidated results of operations. For the three and six months ended June 25, 2021, results of operations included charges of $4.6 million attributable to amortization of purchased intangible assets. In addition, deal costs associated with the acquisition of $8.1 million and $9.5 million were included in the results of operations for the three and six months ended June 25, 2021, respectively. Deal costs are included in general and administrative expenses in the Company’s Condensed Consolidated Results of Operations.

The following unaudited pro forma consolidated results of operations assume the acquisition was completed as of the beginning of the year of the reporting periods presented.

The unaudited pro forma consolidated results of operations for the three and six months ended June 25, 2021 and June 26, 2020 (in millions, except per share amounts) as follows:

	Three Months Ended		Six Months Ended	
	June 25, 2021	June 26, 2020	June 25, 2021	June 26, 2020
(In millions, except per share amounts)				
Revenues	$ 515.2	$ 391.8	$ 989.1	$ 760.9
Net income	$ 23.1	$ 13.1	$ 54.1	$ 4.0
Basic income per share	$ 0.53	$ 0.33	$ 1.29	$ 0.10
Diluted income per share	$ 0.52	$ 0.32	$ 1.26	$ 0.10

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, and to reflect the related income tax effect. The unaudited pro forma results for the three and six months ended June 26, 2020 include acquisition related costs of $14.9 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 would have been realized had UCT and Ham-Let 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 the Company may achieve with respect to the combined companies, or any liabilities that may result from integration activities.

Dynamic Manufacturing Solutions, LLC

On April 15, 2019, the Company purchased substantially all of the assets of DMS, a semiconductor weldment and solutions provider based in Austin, Texas. Pursuant to the purchase agreement, the former owners of DMS were entitled to receive up to $12.5 million of potential cash earn-out if the combined weldment business, after the acquisition, achieved certain gross profit and gross margin targets for the twelve months ending June 26, 2020. During the second quarter of fiscal year 2020, DMS achieved the specified performance target of the earn-out, which resulted in the maximum payment of $12.5 million paid in August 2020. In the first quarter of fiscal year 2020, the Company completed the acquisition accounting and the valuation of the fair value of the assets acquired and the liabilities assumed.

3. BALANCE SHEET INFORMATION

Inventories consisted of the following:

(In millions)	June 25, 2021	December 25, 2020
Raw materials	$ 155.7	$ 102.9
Work in process	89.6	64.5
Finished goods	56.7	13.0
Total	$ 302.0	$ 180.4

Property, plant and equipment, net, consisted of the following:

(In millions)	Useful Life (in years)	June 25, 2021	December 25, 2020
Land		$ 4.8	$ 3.8
Buildings	50	39.5	37.2
Machinery and equipment	5-10	115.0	73.8
Leasehold improvements	*	53.2	46.7
Computer equipment and software	3-10	48.1	42.5
Furniture and fixtures	5	4.9	4.4
		265.5	208.4
Accumulated depreciation		(97.0)	(84.0)
Construction in progress		49.8	34.8
Total		$ 218.3	$ 159.2

* Lesser of estimated useful life or remaining lease term

Restructuring

During the first quarter of fiscal year 2020, the Company made a strategic decision to fully integrate Quantum Global Technologies, LLC's ("QGT") corporate office responsibilities from Quakertown, PA to UCT's corporate office in Hayward, CA. As a result, the Company recorded a restructuring charge of $0.9 and $1.9 million for the three and six months ended June 26, 2020, respectively, in general and administrative expense, primarily related to employee severance as well as the impaired value of the facility lease and losses on sale of equipment.

Insurance Proceeds

In September 2018, a fire in a facility owned by Cinos Korea destroyed certain assets, including equipment, the building and inventory owned by one of its customers. During the first fiscal quarter of 2021, the Company received final insurance proceeds related to the Cinos fire of $7.3 million, which was recorded for the six months ended June 26, 2021 in the accompanying Condensed Consolidated Statements of Operations as other income (expense), net. No insurance proceeds were received in the comparable period in the prior year.

4. FAIR VALUE MEASUREMENTS

The fair value hierarchy requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The following table summarizes, for assets or liabilities measured at fair value, the respective fair value and the classification by level of input within the fair value hierarchy:

		Fair Value Measurement at Reporting Date Using		
Description	**June 25, 2021**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
(In millions)				
Prepaid expenses and other:				
Forward contracts	$ 0.1	$ —	$ 0.1	$ —
Other non-current assets:				
Purchase option	$ 1.1	$ —	$ —	$ 1.1
Other liabilities:				
Common stock purchase obligation	$ 14.0	$ —	$ —	$ 14.0
Pension obligation	$ 5.5	$ —	$ —	$ 5.5

		Fair Value Measurement at Reporting Date Using		
Description	**December 25, 2020**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
(In millions)				
Prepaid expenses and other:				
Forward contracts	$ 1.1	$ —	$ 1.1	$ —
Other liabilities:				
Common stock purchase obligation	$ 12.6	$ —	$ —	$ 12.6
Pension obligation	$ 4.7	$ —	$ —	$ 4.7

The estimated fair value of foreign currency forward contracts is based upon quoted market prices obtained from independent pricing services for similar derivative contracts and these financial instruments are characterized as Level 2 assets in the fair value hierarchy.

A wholly-owned subsidiary of Ham-Let owns 70.0% interest in Rovac with an option to acquire the remaining 30.0% ownership interest. The fair value of the purchase option recorded in the Company's financial statements was determined using the Black Scholes option pricing model which utilizes the stock price of Rovac, volatility, expected life and risk-free interest rate based on the implied yield available on U.S. Treasury Securities with a maturity equivalent to the purchase option's expected life. These assumptions were developed during the valuation process resulting in a Level 3 classification

The estimated fair value of the common stock purchase obligation is based on a combination of an income and market valuation approach. The income and market valuation approaches may incorporate Level 3 fair value measures for instances when observable inputs are not available. The more significant judgmental assumptions used to estimate the value of the common stock purchase obligation include an estimated discount rate, a range of assumptions that form the basis of the expected future net cash flows (e.g., the revenue growth rates and operating margins), and a company specific beta. The significant judgmental assumptions used that incorporate market data, including the relative weighting of market observable information and the comparability of that information in the valuation models, are forward-looking and could be affected by future economic and market conditions.

The estimated fair value of the pension obligation is based on expected years of service and average compensation. The valuation model used to value the pension obligation utilizes mortality rate, inflation, interest rate risks and changes in the life expectancy for pensioners. These assumptions are routinely made in the appraisal process by the independent actuary thus resulted in a Level 3 classification.

There were no transfers from Level 1 or Level 2. Fair value adjustments were noncash, and therefore did not impact the Company's liquidity or capital resources. Qualitative information about Level 3 fair value measurements is as follows:

(Dollars in millions, except rate/multiple)	June 25, 2021	Valuation Techniques	Unobservable Input	Range/Multiple
Purchase option	$ 1.1	Black-Scholes option-pricing model	Volatility	65.0%
			Risk free interest rate	0.03%
			Stock price	$ 1.2
			Strike price	$ 0.1
Common stock purchase obligation	$ 14.0	Discounted cash flow	Revenue multiple	1.3 - 1.5
			EBITDA Multiple	4.5 - 7.4
			Discount rate	15.0% - 20.0%
Pension obligation	$ 5.5	Projected unit credit method	Discount rate	2.1%
			Rate on return	2.5%
			Salary increase rate	4.0%

Following is a summary of the Level 3 activity:

(In millions)	Purchase option	Common stock purchase obligation	Pension obligation
As of December 25, 2020	$ —	$ 12.6	$ 4.7
Fair value adjustments	—	1.4	0.8
Acquisition of Ham-Let	1.1	—	—
As of June 25, 2021	$ 1.1	$ 14.0	$ 5.5

5. FINANCIAL INSTRUMENTS

Derivative Financial Instruments

The Company utilizes foreign currency forward contracts to reduce the risk that its cash flows and earnings will be adversely affected by foreign currency exchange rate fluctuations. The Company classifies its foreign currency forward within Level 2 of the fair-value hierarchy discussed in Note 4 of the Company's Condensed Consolidated Financial Statements as the valuation inputs are based on quoted prices and market observable data of similar instruments.

Non-Designated Derivatives

The Company uses foreign currency contracts to economically hedge the functional currency equivalent cash flows of non-U.S. dollar- denominated acquisitions. The change in fair value of these derivatives is recorded through earnings in other income (expense), net.

The Company records all derivatives in the Condensed Consolidated Balance Sheets at fair value. The Company's accounting treatment for these derivative instruments is based on its hedge designation. The following tables show the Company's derivative instruments at gross fair value as of June 25, 2021and December 25, 2020.

		June 25, 2021		
(In millions)	Balance Sheet Location	Fair Value of Derivatives Designated as Hedge Instruments	Fair Value of Derivatives Not Designated as Hedge Instruments	Total Fair Value
Derivative liabilities:				
Level 2:				
Forward contracts	Prepaid expenses and other	$ 0.1	$ —	$ 0.1

		December 25, 2020		
(In millions)	Balance Sheet Location	Fair Value of Derivatives Designated as Hedge Instruments	Fair Value of Derivatives Not Designated as Hedge Instruments	Total Fair Value
Derivative assets				
Level 2:				
Forward contracts	Prepaid expenses and other	$ —	$ 1.1	$ 1.1

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

	Gains (Losses) Recognized in OCI on Derivatives Before Tax Effect (Effective Portion)			
	Three Months Ended		Six Months Ended	
(In millions)	June 25, 2021	June 26, 2020	June 25, 2021	June 26, 2020
Derivatives in Cash Flow Hedging Relationship				
Forward contracts	$ 0.6	$ —	$ (0.1)	$ —

The amount of gain or loss reclassified from accumulated OCI into income is not significant for the three and six months ended June 25, 2021 and for the three and six months ended June 26, 2020.

		Losses Recognized in Income on Derivatives			
		Three Months Ended		Six Months Ended	
(In millions)	Income Statement Location	June 25, 2021	June 26, 2020	June 25, 2021	June 26, 2020
Derivatives Not Designated As Hedging Instruments					
Forward contracts	Other income (expense), net	$ -	$ —	$ (11.6)	$ —

In 2020, the Company entered into multiple foreign currency contracts to hedge the functional currency equivalent cash flows related to the non-U.S. dollar-denominated acquisition price of Ham-Let. As of March 26, 2021, these contracts were terminated and the $10.4 million liability related to these forward hedge contracts was paid on March 31, 2021 in conjunction with the acquisition of Ham-Let.

6. GOODWILL AND INTANGIBLE ASSETS

The Company's methodology for allocating the purchase price relating to an acquisition is determined through established and generally accepted valuation techniques. Goodwill is measured as the excess of the consideration transferred 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. To test goodwill for impairment, the Company first performs a qualitative assessment to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying value. If the Company concludes it is more likely than not that the fair value of a reporting unit exceeds its carrying amount, the Company does not proceed to perform a quantitative impairment test. If the Company concludes it is more likely than not that the fair value of the reporting unit is less than its carrying value, a quantitative goodwill impairment test will be performed by comparing the fair value of each reporting unit to its carrying value. A quantitative impairment analysis, if necessary, considers the income approach, which requires estimates of the present value of expected future cash flows to determine a reporting unit's fair value. Significant estimates include revenue growth rates and operating margins used to calculate projected future cash flows, discount rates, and future economic and market conditions. A goodwill impairment charge is recognized for the amount by which the reporting unit's fair value is less than its carrying value. Any loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. 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.

Details of aggregate goodwill of the Company are as follows:

(In millions)	Products	Services	Total
Balance at December 25, 2020	$ 97.6	$ 73.5	$ 171.1
Acquisition of Ham-Let	86.1	—	86.1
Balance at June 25, 2021	$ 183.7	$ 73.5	$ 257.2

Intangible Assets

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

Details of intangible assets were as follows:

		As of June 25, 2021			As of December 25, 2020		
(Dollars in millions)	Useful Life (in years)	Gross Carrying Amount	Accumulated Amortization	Carrying Value	Gross Carrying Amount	Accumulated Amortization	Carrying Value
Customer relationships	6 - 10	$ 193.3	$ (57.9)	$ 135.4	$ 119.4	$ (50.6)	$ 68.8
Tradename	4 - 6*	36.8	(14.1)	22.7	27.0	(11.7)	15.3
Intellectual property/know-how	7 - 15	49.4	(11.1)	38.3	13.9	(9.8)	4.1
Recipes	20	73.2	(10.4)	62.8	73.2	(8.5)	64.7
Standard operating procedures	20	8.6	(1.2)	7.4	8.6	(1.0)	7.6
Backlog	1	5.2	(1.3)	3.9	—	—	—
Total		$ 366.5	$ (96.0)	$ 270.5	$ 242.1	$ (81.6)	$ 160.5

* The Company concluded that the asset life of the UCT tradename of $9.0 million is indefinite and is therefore not amortized but is reviewed for impairment at least annually and whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable.

The Company amortizes its intangible assets on a straight-line or accelerated basis over the estimated economic life of the assets. Amortization expense was approximately $9.5 million and $14.4 million for the three and six months ended June 25, 2021, respectively, and $4.9 million and $9.9 million for the three and six months ended June 26, 2020, respectively. Amortization expense related to recipes, standard operating procedures and certain intellectual property/know-how is charged to cost of revenues and the remainder is charged to general and administrative expense. As of June 25, 2021, future estimated amortization expense is expected to be as follows:

(In millions)		**Amortization Expense**
2021 (remaining in year)	$	19.0
2022		33.4
2023		26.4
2024		25.5
2025		23.2
Thereafter		134.0
Total	$	261.5

7. BORROWING ARRANGEMENTS

In August 2018, the Company entered into a credit agreement with Barclays Bank that provided a Term Loan, a Revolving Credit Facility, and a Letter of Credit Facility (the "Credit Facility"). UCT and certain of its subsidiaries have agreed to secure all of their obligations under the Credit Facility by granting a first priority lien in substantially all of their respective personal property assets (subject to certain exceptions and limitations). In August 2018, the Company borrowed $350.0 million under the Term Loan and used the proceeds, together with cash on hand, to finance the acquisition of QGT and to refinance its previous credit facilities.

On March 31, 2021, the Company entered into a Second Amendment (the "Second Amendment") to the Credit Facility to, among other things, (i) refinance and reprice its approximately $272.8 million of existing term B borrowings that will remain outstanding (the "Repricing") and (ii) obtain a $355.0 million senior secured incremental term loan B facility (the "Incremental Term Loan") with Barclays Bank, which increased the amount of term loan indebtedness outstanding under the Company's Credit Facility.

The Term Loan has a maturity date of August 27, 2025, with monthly interest payments in arrears, quarterly principal payments of 0.625% of the outstanding principal balance thereof as of March 31, 2021, with the remaining principal paid upon maturity. Under the Credit Agreement, the Company may elect that the term loans bear interest at a rate per annum equal to either (a) "ABR" (as defined in the Credit Agreement), plus the applicable margin or (b) the "Eurodollar Rate" (as defined in the Credit Agreement), based on LIBOR, plus the applicable margin. The applicable margin for the term loan under the Credit Agreement is equal to a rate per annum to either (i) at any time that the Company's corporate family rating is Ba3 (with a stable outlook) or higher from Moody's and BB- (with a stable outlook) or higher from S&P, (x) 3.50% for such Eurodollar term loans and (y) 2.50% for such ABR term loans or (ii) at all other times, (x) 3.75% for such Eurodollar term loans and (y) 2.75% for such ABR term loans. Interest on the term loans is payable on (1) in the case of such ABR term loans, the last day of each calendar quarter and (2) in the case of such Eurodollar term loans, the last day of each relevant interest period and, in the case of any interest period longer than three months, on each successive date three months after the first day of such interest period. On March 29, 2021, the Company elected that the term loan outstanding as of March 31, 2021 accrue interest based on the "Eurodollar Rate" for an initial interest period of one month. As of March 31, 2021, the applicable margin with respect to the term loan facility was 3.75%. Pursuant to the Second Amendment to the Credit Agreement made effective on March 31, 2021, the Credit Agreement contains customary LIBOR replacement provisions in the event LIBOR is discontinued. At June 25, 2021, the Company had an outstanding amount under the Term Loan of $598.9 million, gross of unamortized debt issuance costs of $15.3 million. As of June 25, 2021, the interest rate on the outstanding Term Loan was 3.84%.

The Revolving Credit Facility has an initial available commitment of $65.0 million and a maturity date of August 27, 2023. The Company pays a quarterly commitment fee in arrears equal to 0.25% of the average daily available commitment outstanding.

The Credit Agreement requires the Company to maintain certain financial covenants including a consolidated fixed charge coverage ratio (as defined in the New Credit Agreement) as of the last day of any fiscal quarter of at least 1.25 to 1.00, and a consolidated leverage ratio (as defined in the Credit Agreement) as of the last day of any fiscal quarter of no greater than 3.75 to 1.00. The Company was in compliance with all financial covenants as of the quarter ended June 25, 2021.

The Letter of Credit Facility has an initial available commitment of $50.0 million and a maturity date of August 27, 2023. The Company pays quarterly in arrears a fee equal to 2.5% (subject to certain adjustments as per the Term Loans) of the dollar equivalent of all outstanding letters of credit, and a fronting fee equal to 0.125% of the undrawn and unexpired amount of each letter of credit. As of June 25, 2021, the Company had $2.4 million of outstanding letters of credit with beneficiaries such as landlords of certain facility leases, insurance providers and government agencies making up the majority of the outstanding balance. The remaining available commitments are $47.6 million on the Letter of Credit Facility and $65.0 million on the Revolving Credit Facility.

In 2020, Cinos China amended its existing Credit Agreement and entered into two additional Credit Agreements with a local bank that provide Revolving Credit Facilities for a total available commitment of $3.5 million with various maturity dates through September 23, 2022 and interest rates ranging from 2.0% to 4.1%. As of June 25, 2021, Cinos China had outstanding debt of $ 2.7 million with an average interest rate of 3.1% under these Credit Agreements.

Cinos Korea has a Credit Agreement that provides a Revolving Credit Facility for a total available commitment of 0.6 billion Korean Won (approximately $0.5 million) with annual renewals beginning June 2022 with an interest rate of 2.9%. During the six months ended June 26, 2020, borrowings under the Revolving Credit Facility were insignificant and no debt was outstanding as of June 25, 2021.

UCT Fluid Delivery Solutions s.r.o. has a credit agreement with a local bank in the Czech Republic that provides for a revolving credit facility in the aggregate of up to 6.0 million euros. As of June 25, 2021, no debt was outstanding under this revolving credit facility.

Ham-Let has credit facilities and other loan agreements with various financial institutions. As of June 25, 2021, Ham-Let had $8.4 million of outstanding debt with interest rates ranging from 1.8% to 4.6%.

As of June 25, 2021, the Company's total bank debt was $594.7 million, net of unamortized debt issuance costs of $15.3 million. As of June 25, 2021, the Company had $65.0 million, $9.8 million and $0.8 million available to borrow on its revolving credit facilities in the U.S., Czech Republic and China, respectively.

The fair value of the Company's long-term debt was based on Level 2 inputs, and fair value was determined using quoted prices for similar liabilities in inactive markets. The Company's carrying value approximates fair value for the Company's long-term debt.

8. INCOME TAX

The Company's effective tax rate was 25.6% and 20.5% for the three months ended June 25, 2021 and June 26, 2020, respectively, and 23.2% and 23.8% for the six months ended June 25, 2021 and June 26, 2020. The Company's income tax provision was $6.2 million and $5.7 million for the three months ended June 25, 2021 and June 26, 2020, respectively, and $13.2 and $10.2 for the six months ended June 25, 2021 and June 26, 2020. The change in respective rates reflects, primarily, changes in the geographic mix of worldwide earnings and financial results in jurisdictions which are taxed at different rates and the impact of losses in jurisdictions with full federal and state valuation allowances.

Company management continuously evaluates the need for a valuation allowance and, as of June 25, 2021, concluded that a full valuation allowance on its U.S. federal and state deferred tax assets was still appropriate.

The Company provides for U.S. income taxes on the earnings of its foreign subsidiaries to the extent required by the Tax Cuts and Jobs Act (TCJA). In a prior period, the Company has also recognized a deferred tax liability for taxes that would be withheld on a distribution of a portion of the undistributed earnings of one of its China subsidiaries. However, the Company has not provided for withholding taxes on the remaining portion of the undistributed earnings of its China subsidiary nor for the undistributed earnings of its other foreign subsidiaries that it intends to reinvest indefinitely outside the U.S. The Company has also historically remitted earnings from its Singapore subsidiary to the U.S. and may do so again in the future. However, the Company has not provided for withholding taxes on undistributed Singapore earnings as Singapore does not currently impose a withholding tax on dividends. If the Company changes its intent to reinvest its undistributed foreign earnings indefinitely or if a greater amount of undistributed earnings is needed than the previous anticipated remaining unremitted foreign earnings, the Company could be required to accrue or pay foreign taxes on some or all of these undistributed earnings. As of June 25, 2021, the Company had undistributed earnings of foreign subsidiaries that are considered indefinitely invested outside of the U.S. of approximately $317.3 million. It is not practicable to determine the tax liability that might be incurred if these earnings were to be distributed.

As of June 25, 2021 and June 26, 2020, the Company's gross liability for unrecognized tax benefits, excluding interest, was $1.3 million and $1.0 million, respectively. Increases or decreases to interest and penalties on uncertain tax positions are included in the income tax provision in the Condensed Consolidated Statements of Operations. Although it is possible that some of the unrecognized tax benefits could be settled within the next twelve months, the Company cannot reasonably estimate the outcome at this time.

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (the CARES Act) was signed into law in response to the U.S. COVID-19 pandemic, which, among other things, suspends the 80.0% limitation on the deduction for NOLs in taxable years beginning before January 1, 2021, permits a 5-year carryback of NOLs arising in taxable years beginning after December 31, 2017 and before January 1, 2021, and generally caps the limitation on the deduction for net interest expense at 50.0% of adjusted taxable income for taxable years beginning in 2019 and 2020. In addition, the CARES Act raises the corporate charitable deduction limit to 25.0% of taxable income and makes qualified improvement property generally eligible for 15-year cost-recovery and 100.0% bonus depreciation. The Company has evaluated the impact of the CARES Act and determined that there was no significant impact to the income tax provision for the three and six months ended June 25, 2021.

On December 27, 2020, the U.S. government enacted the Consolidated Appropriations Act, 2021, which enhances and expands certain provisions of the CARES Act. This legislative act is not expected to have a material impact on the Company's consolidated financial results.

On March 11, 2021, the American Rescue Plan Act of 2021 ("American Rescue Plan") was signed into law to provide additional relief in connection with the ongoing COVID-19 pandemic. The American Rescue Plan includes, among other things, provisions relating to Paycheck Protection Plan ("PPP") loan expansion, defined pension contributions, excessive employee remuneration, and the repeal of the election to allocate interest expense on a worldwide basis. The Company does not currently expect that such provisions will have a material impact on the Company's Condensed Consolidated Financial Statements.

In December 2019, the FASB issued Accounting Standards Update No. 2019-12, "Income Taxes (Topic 740) Simplifying the Accounting for Income Taxes", as part of its initiative to reduce complexity in the accounting standards. The ASU eliminates certain exceptions from ASC 740 related to the approach for intraperiod tax allocation, the methodology for calculating income taxes in an interim period and the recognition of deferred tax liabilities for outside basis differences. ASU 2019-12 also clarifies and simplifies other aspects of the accounting for income taxes. The guidance is effective for fiscal years beginning after December 15, 2020 and for interim periods within those fiscal years. The Company adopted ASU 2019-12 on January 1, 2021. The adoption of this standard did not have a material impact on the Company's Condensed Consolidated Financial Statements.

9. RETIREMENT PLANS

Defined Benefit Plan

Cinos Korea has a noncontributory defined benefit pension plan covering substantially all of its employees upon their retirement. The benefits are based on expected years of service and average compensation. The net period costs are recognized as employees render the services necessary to earn the postretirement benefits. The Company records annual amounts relating to the pension plan based on calculations that incorporate various actuarial and other assumptions, including discount rates, mortality, assumed rates of return, compensation increases and turnover rates. The Company reviews its assumptions on an annual basis and makes modifications to the assumptions based on current and expected rates of return and trends when it is appropriate to do so. The effect of modifications to those assumptions is recorded in accumulated other comprehensive income and amortized to net periodic cost over future periods using the corridor method. The Company believes that the assumptions utilized in recording its obligations under the plan are reasonable based on its experience and market conditions.

As of June 25, 2021, the benefit obligation of the plan was $9.6 million and the fair value of the benefit plan assets, which are invested in several fixed deposit accounts with a bank, was $5.9 million. As of June 25, 2021, the unfunded balance of the plan of $3.7 million has been accrued for by the Company and is included in other long-term liabilities. Amounts recognized in accumulated other comprehensive income as of June 25, 2021 are $0.5 million. The contribution to the plan by the Company and its subsidiaries during the year ended June 25, 2021 was $26.0 thousand. The benefits expected to be paid from the pension plan in each year from 2021-2025 are $none, $0.9 million, $2.3 million, $1.0 million and $0.9 million, respectively. The aggregate benefits expected to be paid in the five years from 2026-2031 are $5.7 million.

Employee Savings and Retirement Plan

The Company sponsors a 401(k) savings and retirement plan (the "401(k) Plan") for all U.S. employees who meet certain eligibility requirements. Participants can elect to contribute to the 401(k) Plan, on a pre-tax basis, up to 25% of their salary to a maximum of the IRS limit. The Company matches 50.0% of participant salary up to 6.0% of employee contributions based upon eligibility. The Company made approximately $0.6 million and $1.2 million discretionary employer contributions to the 401(k) Plan in the three and six months ended June 25, 2021 and $0.7 million and $1.3 million for the three and six months ended June 26, 2020, respectively.

10. COMMITMENTS AND CONTINGENCIES

Commitment

The Company had commitments to various third parties to purchase inventories totaling approximately $405.1 million as of June 25, 2021.

Contingency

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 individually or in the aggregate cannot be predicted with certainty, the Company has not had a history of outcomes to date that have been material to the Condensed Consolidated Statements of Operations and does not believe that any of these proceedings or other claims will have a material adverse effect on its consolidated financial condition, results of operations or cash flows.

11. STOCKHOLDERS' EQUITY AND NONCONTROLLING INTERESTS

Equity Financings

On April 13, 2021, the Company completed an underwritten public offering of 3,181,818 shares of the Company's common stock, for which the Company received net proceeds of approximately $167.6 million, after deducting the underwriting discounts and offering expenses payable by the Company. On April 29, 2021, the Underwriters exercised the option to purchase an additional 477,272 shares of the Company's common stock for approximately $25.2 million in cash.

Noncontrolling Interests

QGT, through its wholly-owned subsidiary in Singapore, owns part of the outstanding shares of Cinos Korea, a South Korean company that provides outsourced cleaning and recycling of precision parts for the semiconductor industry through its operating facilities in South Korea and through its partial interest in Cinos China.

The carrying value of the remaining interest held by another shareholder in Cinos Korea and the remaining interest in Cinos China are presented as noncontrolling interests in the accompanying Condensed Consolidated Financial Statements. The fair values of the noncontrolling interests were estimated based on the values of Cinos Korea and Cinos China on a 100.0% basis. The values were calculated based on the pro-rata portion of total QGT earnings before interest expense, taxes, depreciation and amortization contributed by each entity.

The Company is obligated to purchase shares owned by a Cinos Korea shareholder. As of June 25, 2021, the fair value of the obligation is $14.0 million which has been recorded as a non-current liability in the accompanying consolidated balance sheets and represents a Level 3 measurement as discussed in Note 4 of the Company's Notes to Condensed Consolidated Financial Statements.

On July 24, 2021, the Company entered into an amendment with the Cinos Korea shareholder to eliminate the obligation to purchase certain amount of the common stock owned by the shareholder. As a result, noncontrolling interest in Cinos Korea would increase by 35.0% beginning in the third quarter of fiscal 2021.

12. EMPLOYEE STOCK PLANS

The Company grants stock awards in the form of restricted stock units (RSUs) and performance stock units (PSUs) to its employees as part of the Company's long-term equity compensation plan. These stock awards are granted to employees with a unit purchase price of zero dollars and typically vest over three years, subject to the employee's continued service with the Company and, in the case of PSUs, subject to achieving certain performance goals. The Company also grants common stock to its board members in the form of restricted share awards (RSAs), which vest on the earlier of 1) the next Annual Shareholder Meeting, or 2) 365 days from date of grant.

Stock-based compensation expense includes compensation costs related to estimated fair values of awards granted. The estimated fair value of the Company's equity-based awards, net of expected forfeitures, is amortized on a straight-line basis over the awards' vesting period and is adjusted for subsequent changes in estimated forfeitures related to all equity-based awards and performance as it relates to PSUs.

The following table shows the Company's stock-based compensation expense included in the Condensed Consolidated Statements of Operations:

	Three Months Ended		Six Months Ended	
(In millions)	**June 25, 2021**	**June 26, 2020**	**June 25, 2021**	**June 26, 2020**
Cost of revenues (1)	$ 0.4	$ 0.5	$ 0.9	$ 1.0
Research and development	-	0.1	0.1	0.1
Sales and marketing	0.4	0.3	0.7	0.6
General and administrative	2.9	2.2	5.5	4.5
	3.7	3.1	7.2	6.2
Income tax benefit	(0.9)	(0.6)	(1.7)	(1.5)
Stock-based compensation expense, net of tax	$ 2.8	$ 2.5	$ 5.5	$ 4.7

(1) Stock-based compensation expense capitalized in inventory for the three and six months ended June 25, 2021 and June 26, 2020was not significant.

For purposes of determining compensation expense related to these RSUs, the fair value is determined based on the closing market price of the Company's common stock on the date of award.

There were 0.3 million RSUs granted during the quarter ended June 25, 2021, with a weighted average fair value of $49.86 per share. For the six months ended June 26, 2020, 0.4 million RSUs were granted with a weighted average fair value of $49.02 per share. For the six months ended June 26, 2020, 0.1 million vested shares were withheld to satisfy withholding tax obligations, resulting in the net issuance of 0.5 million shares.

As of June 25, 2021, approximately $26.0 million of stock-based compensation cost, net of estimated forfeitures, related to RSUs and PSUs remains to be amortized over a weighted average period of 1.7 years. As of June 25, 2021, a total of 1.4 million RSUs and PSUs remain outstanding with an aggregate intrinsic value of $75.6 million and a weighted average remaining contractual term of 1.3 year.

As of June 25, 2021, a total of 18,893 shares of RSAs were outstanding. The total unamortized expense of the Company's unvested restricted stock awards as of June 25, 2021 was $0.8 million.

The following table summarizes the Company's combined RSU, PSU and RSA activity for the six months ended June 26, 2020:

(In millions)	Shares	Aggregate Fair Value
Unvested RSUs, PSUs and RSAs at December 25, 2020	1.7	$ 54.1
Granted	0.4	
Vested	(0.6)	
Forfeited	(0.1)	
Unvested RSUs, PSUs and RSAs as of June 25, 2021	1.4	$ 76.6
Vested and expected to vest RSUs, PSUs and RSAs as of June 25, 2021	1.3	$ 67.4

13. REVENUE RECOGNITION

Revenue is recognized when control of the promised goods or services is transferred to the Company's customers, in an amount that reflects the consideration the Company expects to be entitled to in exchange for those goods or services.

The Company sells its products and services primarily to customers in the semiconductor capital equipment industry. The Company's revenues are highly concentrated, and we are therefore highly dependent upon a small number of customers. Typical payment terms with our customers range from thirty to sixty days.

The Company's Products division provides warranty on its products for a period of up to two years and provides for warranty costs at the time of sale based on historical activity. Determination of the warranty reserve requires the Company to make estimates of product return rates and expected costs to repair or replace the products under warranty. If actual return rates and/or repair and replacement costs differ significantly from these estimates, adjustments to recognize additional cost of revenues may be required in future periods. The warranty reserve is included in other current liabilities on the Condensed Consolidated Balance Sheets and is not considered significant.

The Company's products are manufactured and services provided at facilities throughout the Americas, Asia Pacific and EMEA ("Europe and the Middle East"). Sales to customers are initiated through a purchase order and are governed by our standard terms and conditions, written agreements, or both. Revenue is recognized when performance obligations under the terms of an agreement with a customer are satisfied; generally, this occurs with the transfer of control of the products or when the Company provides the services. Transfer of control occurs at a specific point-in-time. Based on the enforceable rights included in our agreements or prevailing terms and conditions, products produced by the Company without an alternative use are not protected by an enforceable right of payment that includes a reasonable profit throughout the duration of the agreement. Consignment sales are recognized in revenue at the earlier of the period that the goods are consumed or after a period of time subsequent to receipt by the customer as specified by terms of the agreement, provided control of the promised goods or services has transferred.

Revenue is measured as the amount of consideration we expect to receive in exchange for transferring Products or providing services. Sales, value-add, and other taxes we collect concurrent with revenue-producing activities are excluded from revenue. Certain of our customers may receive cash-based incentives, such as rebates or credits, which are accounted for as variable consideration. We estimate these amounts based on the expected amount to be provided to customers and reduce revenues recognized. As of June 25, 2021 and December 25, 2020, an accrual for unpaid customer rebates of $5.7 million for both periods was included in accounts receivable on the Company's Condensed Consolidated Balance Sheet. The Company's disaggregated revenues are by segments within the Company's Condensed Consolidated Statement of Operations.

The Company's principal markets include America, Asia Pacific and EMEA. Revenues by geographic area are categorized based on the customer's location to which the products were shipped or where the services were performed. The following table sets forth revenue by geographic area (in millions):

	Three Months Ended		Six Months Ended	
	June 25, 2021	June 26, 2020	June 25, 2021	June 26, 2020
United States	$ 187.3	$ 155.1	$ 359.9	$ 297.7
Singapore	182.5	119.6	335.8	231.8
South Korea	36.7	21.3	63.3	41.6
China	25.4	12.0	41.4	21.1
Taiwan	23.1	15.0	43.3	30.2
Austria	20.6	13.0	39.3	27.5
Israel	5.4	4.2	9.4	7.9
Other	34.2	4.6	40.4	7.9
	$ 515.2	$ 344.8	$ 932.8	$ 665.7

14. LEASES

The Company leases offices, facilities and equipment in locations throughout the Americas, Asia Pacific and EMEA.

The Company's leases do not provide an implicit rate, thus the Company uses an estimated incremental borrowing rate in determining the present value of lease payments.

The components of lease expense were summarized as follows:

	Three Months Ended		Six Months Ended	
(Dollars in millions)	June 25, 2021	June 26, 2020	June 25, 2021	June 26, 2020
Operating lease cost	$ 4.8	$ 3.4	$ 8.5	$ 6.6
Short-term lease cost	0.5	0.3	0.9	0.6
Total lease cost	$ 5.3	$ 3.7	$ 9.4	$ 7.2
Operating cash flows from operating leases	$ 5.5	$ 4.4	$ 9.2	$ 8.8
Weighted-average remaining lease term – operating leases			1.8	2.2
Weighted-average discount rate – operating leases			5.1%	5.5%

Future minimum payments under operating leases as of June 25, 2021 were summarized as follows:

(In millions)	**Operating Leases**
2021 remaining	$ 9.3
2022	17.4
2023	14.4
2024	11.0
2025	8.1
Thereafter	22.3
Total minimum lease payments	82.5
Less: imputed interest	12.2
Lease liability	$ 70.3

The Company assumed $23.8 million of facility leases as part of the acquisition of Ham-Let. The Company also entered into two new lease agreements in fiscal year 2020 with commencement dates in fiscal year 2021. The total minimum lease payments for these two new lease agreements is $22.1 million, which was included in the total contractual obligations.

15. NET INCOME PER SHARE

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

(In millions, except share amounts)	Three Months Ended June 25, 2021	Three Months Ended June 26, 2020	Six Months Ended June 25, 2021	Six Months Ended June 26, 2020
Numerator:				
Net income attributable to UCT	$ 17.1	$ 21.3	$ 42.1	$ 30.7
Denominator:				
Shares used in computation — basic:				
Weighted average common shares outstanding	43.3	40.1	41.9	39.9
Shares used in computation — diluted:				
Weighted average common shares outstanding	43.3	40.1	41.9	39.9
Dilutive effect of common shares outstanding subject to repurchase	1.0	0.7	1.0	0.9
Shares used in computing diluted net income per share	44.3	40.8	42.9	40.8
Net income per share attributable to UCT — basic	$ 0.39	$ 0.53	$ 1.00	$ 0.77
Net income per share attributable to UCT — diluted	$ 0.39	$ 0.52	$ 0.98	$ 0.75

16. REPORTABLE SEGMENTS

The Company operates and reports financial results for two operating segments: Products and Services. These segments are organized primarily by the nature of the products and service they provide. The Company's Chief Executive Officer (chief operating decision maker) views and evaluates operations based on the results of each of the reportable segments. The following table describes each segment:

Segment	Product or Services	Markets Served	Geographic Areas
Products	Assembly Weldments Machining Fabrication Components	Semiconductor	Americas Asia Pacific EMEA
Services	Cleaning Analytics	Semiconductor	Americas Asia Pacific EMEA

The Company uses segment profit or loss as the primary measure of profitability to evaluate operating performance and to allocate capital resources. Segment profit or loss is defined as a segment's income or loss from continuing operations before other income and income taxes included in the accompanying condensed consolidated statements of operations.

Any intercompany sales and associated profit (and any other intercompany items) are eliminated from segment results. There were no significant intercompany eliminations for the periods presented.

Segment Data

	Three Months Ended		Six Months Ended	
	June 25, 2021	June 26, 2020	June 25, 2021	June 26, 2020
Revenues:				
Products	$ 442.5	$ 277.9	$ 788.1	$ 537.3
Services	72.7	66.9	144.7	128.4
Total segment revenues	$ 515.2	$ 344.8	$ 932.8	$ 665.7
Gross profit:				
Products	$ 74.6	$ 48.6	$ 136.6	$ 93.3
Services	25.3	25.3	50.2	46.3
Total segment gross profit	$ 99.9	$ 73.9	$ 186.8	$ 139.6
Operating profit:				
Products	$ 24.0	$ 24.3	$ 58.2	$ 44.6
Services	7.9	6.5	14.1	8.8
Consolidated income from operations	$ 31.9	$ 30.8	$ 72.3	$ 53.4

	June 25, 2021	December 25, 2020
Assets		
Products	$ 1,597.1	$ 868.4
Services	249.6	234.1
Total segment assets	$ 1,846.7	$ 1,102.5

As of June 25, 2021, approximately $111.6 million and $46.7 million of the Company's net long-lived assets were located in Asia Pacific and EMEA, respectively, and the remaining balances were located in the United States. At December 25, 2020, approximately $90.4 million and $9.4 million of the Company's net long-lived assets were located in Asia and Europe, respectively, and the remaining balances were located in the United States.

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

You should read the following discussion of our financial condition and results of operations in conjunction with the Condensed Consolidated Financial Statements and the notes thereto included elsewhere in this Quarterly Report on Form 10-Q and in our Annual Report on Form 10-K filed with the SEC on February 23, 2021. This Quarterly Report on Form 10-Q contains "forward-looking statements" that involve substantial risks and uncertainties. The statements contained in this Quarterly Report on Form 10-Q that are not purely historical are forward-looking statements within the meaning of Section 27A of the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, including, but not limited to, statements regarding our expectations, beliefs, intentions, strategies, future operations, future financial position, future revenue, projected expenses, gross margins and plans and objectives of management. In some cases, you can identify forward-looking statements by terms such as "anticipate," "believe," "estimate," "expect," "intend," "may," "might," "plan," "project," "will," "would," "should," "could," "can," "predict," "potential," "continue," "objective," or the negative of these terms, and similar expressions intended to identify forward-looking statements. However, not all forward-looking statements contain these identifying words. These forward-looking statements reflect our current views about future events and involve known risks, uncertainties and other factors that may cause our actual results, performance or achievement to be materially different from those expressed or implied by the forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those identified below, and those discussed in the section titled "Risk Factors" included in this Quarterly Report on Form 10-Q and in our Annual Report on Form 10-K filed with the SEC on February 23, 2021, as updated in our Current Report on Form 8-K filed with the SEC on April 5, 2021. 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

Ultra Clean Holdings, Inc., ("UCT", the "Company" or "We") is a leading developer and supplier of critical subsystems, components and parts, and ultra-high purity cleaning and analytical services primarily for the semiconductor industry. UCT offers its customers an integrated outsourced solution for major subassemblies, improved design-to-delivery cycle times, design for manufacturability, prototyping and part and component manufacturing, as well as tool chamber parts cleaning and coating, and micro-contamination analytical services. We operate and report results for two operating segments: Products and Services (formerly known as "SPS" and "SSB", respectively). Our Products business primarily designs, engineers and manufactures production tools, components and parts, and modules and subsystems for the semiconductor and display capital equipment markets. Products include chemical delivery modules, frame assemblies, gas delivery systems, fluid delivery systems, precision robotics, process modules as well as other high-level assemblies. Our Services business provides ultra-high purity parts cleaning, process tool part recoating, surface encapsulation and high sensitivity micro contamination analysis primarily for the semiconductor device makers and wafer fabrication equipment (WFE) markets.

We sell a majority of our products and provide most of our services to U.S. registered customers with locations both in and outside the U.S. In addition to U.S. manufacturing and service operations, we manufacture products and provide parts cleaning and other related services in our Asian and European facilities to support local and U.S. based customers. We conduct our operating activities primarily through our subsidiaries.

Over the long-term, we believe the semiconductor market we serve will continue to grow due to multi-year industry demand from a broad range of drivers including mobile demand driven by 5G, new CPU architectures which are enabling higher performance servers, and cloud, AI and Machine Learning. We also believe that semiconductor original equipment manufacturers ("OEM") are increasingly relying on partners like UCT to fulfill their expanding capacity requirements. Additionally, our Services division is benefiting as device manufacturers rely on precision cleaning, coating and analytics to advance ever more complex devices.

On March 31, 2021, we completed the acquisition of Ham-Let (Israel-Canada) Ltd. ("Ham-Let"), a public company organized under the laws of the State of Israel (not a U.S. registrant), pursuant to an Agreement and Plan of Merger (the "Merger Agreement"), for approximately $362.9 million, which included $273.5 million of equity value plus $91.3 million of net debt offset by the settlement of existing relationship of $1.9 million. Ham-Let engages in the development, manufacturing and marketing of innovative control valves, fittings, and hoses for the control and monitoring of industrial systems in a variety of markets, including the Semiconductor market. These products are primarily used in ultra clean gas transportation systems for the transmission of liquids and gases. The Company's primary reason for this acquisition was to broaden UCT's relevance to the semiconductor equipment market and to provide access to a new set of customers in the semiconductor fab infrastructure market.

On April 13, 2021, we completed an underwritten public offering of 3,181,818 shares of our common stock, in which we received net proceeds of approximately $167.6 million, after deducting the underwriting discounts and offering expenses. On April 29, 2021, the Underwriters exercised the option to purchase an additional 477,272 shares of our common stock for approximately $25.2 million in cash. We intend to use the net proceeds from this offering for general corporate purposes, which may include working capital, sales and marketing activities, product development, general and administrative matters, and capital expenditures. We may use a portion of the net proceeds to acquire complementary businesses, products, services, or technologies, although we have no agreements, commitments, or plans for any specific acquisitions at this time.

Critical Accounting Estimates

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

There have been no significant changes to our critical accounting policies, significant judgments and estimates disclosed in our Annual Report on Form 10-K subsequent to December 25, 2020. For further information on our critical and other significant accounting policies and estimates, see Part II, Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations" of our Annual Report on Form 10-K for the fiscal year ended December 25, 2020, as filed with the SEC.

Results of Operations

Fiscal Year

Our fiscal year is the 52- or 53-week period ending on the Friday nearest December 31. Fiscal year 2021 is the 53-week period ending December 31, 2021, and fiscal year 2020 was the 52-week period ended December 25, 2020. The fiscal quarters ended June 25, 2021 and June 26, 2020 were both 13-week periods.

Discussion of Results of Operations for the Three and Six months ended June 25, 2021 Compared to the Three and Six months ended June 26, 2020

The results of operations for the Company for the three and six months ended June 25, 2021 include operating activities for Ham-Let since its acquisition date of March 31, 2021.

Revenues

	Three Months Ended			Six Months Ended		
Revenues by Segment (Dollars in millions)	**June 25, 2021**	**June 26, 2020**	**Percent Change**	**June 25, 2021**	**June 26, 2020**	**Percent Change**
Products	$ 442.5	$ 277.9	59.2%	$ 788.1	$ 537.3	46.7%
Services	72.7	66.9	8.7%	144.7	128.4	12.7%
Total Revenues	$ 515.2	$ 344.8	49.4%	$ 932.8	$ 665.7	40.1%
Products as a percentage of total revenues	*85.9%*	*80.6%*		*84.5%*	*80.7%*	
Services as a percentage of total revenues	*14.1%*	*19.4%*		*15.5%*	*19.3%*	

Total Products revenues increased in the three and six months ended June 25, 2021, compared to the same period in the prior year, primarily due to an increase in customer demand in the semiconductor industry, in particular, the wafer fabrication equipment industry and in part due to the inclusion of Ham-Let. Total Services revenues increased in the three and six months ended June 25, 2021, compared to the same period in the prior year, primarily due to increases in demand across our customer base.

	Three Months Ended			Six Months Ended		
Revenues by Geography (Dollars in millions)	**June 25, 2021**	**June 26, 2020**	**Percent Change**	**June 25, 2021**	**June 26, 2020**	**Percent Change**
United States	$ 163.0	$ 148.4	9.8%	$ 307.7	$ 283.5	8.5%
International	352.2	196.4	79.3%	625.1	382.2	63.6%
Total Revenues	$ 515.2	$ 344.8	49.4%	$ 932.8	$ 665.7	40.1%
United States as a percentage of total revenues	*31.6%*	*43.0%*		*33.0%*	*42.6%*	
International as a percentage of total revenues	*68.4%*	*57.0%*		*67.0%*	*57.4%*	

On a geographic basis, revenues represent products shipped from or services performed at our U.S. and international locations. For the three and six months ended June 25, 2021, both U.S. and international revenues increased due to an overall global increase in semiconductor capital equipment and general industry demand.

Cost of Revenues

Cost of Revenues by Segment (Dollars in millions)	Three Months Ended June 25, 2021	Three Months Ended June 26, 2020	Percent Change	Six Months Ended June 25, 2021	Six Months Ended June 26, 2020	Percent Change
Products	$ 367.9	$ 229.3	60.4%	$ 651.5	$ 444.0	46.7%
Services	47.4	41.6	13.9%	94.5	82.1	15.1%
Total Cost of Revenues	$ 415.3	$ 270.9	53.3%	$ 746.0	$ 526.1	41.8%
Products as a percentage of total Products revenues	*83.1%*	*82.5%*		*82.7%*	*82.6%*	
Services as a percentage of total Services revenues	65.2%	62.2%		65.3%	63.9%	

Total cost of revenues increased $144.4 million and $219.9 for the three and six months ended June 25, 2021 due to higher demand for both Products and Services and in part by the inclusion of Ham-Let operations.

Cost of Products revenues consists of purchased materials, direct labor and manufacturing overhead. Cost of Products revenues increased $138.6 million for the three months ended June 25, 2021 compared to the same period in the prior year, due to the inclusion of Ham-Let, higher volume of sales driving increased material costs of $110.0 million (including $7.2 million of materials costs resulting from the step-up in value of Ham-Let's inventories at the acquisition/valuation date that were sold through during the quarter ended June 25, 2021), higher direct labor spending of $20.3 million and higher overhead costs of $8.3 million (including $0.7 million of intangible amortization resulting from the acquisition of Ham-Let). Cost of Products increased $207.5 million for the six months ended June 25, 2021 compared to the same period in the prior year, due to higher volume of sales driving increased material costs of $169.4 million, higher direct labor spending of $22.8 million and higher overhead costs of $15.3 million.

Cost of Services revenues consists of direct labor, manufacturing overhead and materials (such as chemicals, gases and consumables). Cost of Services revenues increased $5.8 million in the three months ended June 25, 2021 compared to the same period in the prior year driven by higher volumes of service orders, resulting in an increase in labor costs of $2.1 million (the largest component of Cost of Services), higher material costs of $0.6 million and higher overhead costs of $3.1 million driven by higher service orders. Cost of Services increased $12.4 million for the six months ended June 25, 2021 compared to the same period in the prior year due to an increase in labor costs of $4.4 million, higher material costs of $2.6 million and higher overhead costs of $5.4 million driven by higher service orders.

Gross Margin

Gross Profit by Segment (Dollars in millions)	Three Months Ended June 25, 2021	Three Months Ended June 26, 2020	Percent Change	Six Months Ended June 25, 2021	Six Months Ended June 26, 2020	Percent Change
Products	$ 74.6	$ 48.6	53.5%	$ 136.6	$ 93.3	46.4%
Services	25.3	25.3	0.0%	50.2	46.3	8.4%
Gross profit	$ 99.9	$ 73.9	35.2%	$ 186.8	$ 139.6	33.8%
Gross Margin by Segment						
Products	*16.9%*	*17.5%*		*17.3%*	*17.4%*	
Services	*34.8%*	*37.8%*		*34.7%*	*36.1%*	
Total Company	*19.4%*	*21.4%*		*20.0%*	*21.0%*	

Products gross margin decreased in the three and six months ended June 25, 2021, compared to the same period in the prior year, due primarily to $7.2 million of materials costs resulting from the step-up in value of Ham-Let's inventories at the acquisition/valuation date that were sold through during the quarter ended June 25, 2021 as well as $0.7 million of intangible amortization resulting from the acquisition of Ham-Let, partially offset by higher volume and favorable mix of higher margin products. Services gross margin decreased in the three and six months ended June 25, 2021, compared to the same period in the prior year, due to increases in cleaning and production materials and subcontract services to support growth in the business.

Research and Development

(Dollars in millions)	Three Months Ended June 25, 2021	Three Months Ended June 26, 2020	Percent Change	Six Months Ended June 25, 2021	Six Months Ended June 26, 2020	Percent Change
Research and development	$ 6.1	$ 3.8	60.5%	$ 10.3	$ 7.2	43.1%
Research and development as a percentage of total revenues	*1.2%*	*1.1%*		*1.1%*	*1.1%*	

Research and development expenses increased 2.3 million and $3.1 million in the three and six months ended June 25, 2021 compared to the same periods in the prior year, primarily due to the inclusion of Ham-Let's research and development activities in the second quarter of 2021 and to an increase in personnel-related expenses associated with an increase in headcount.

Sales and Marketing

(Dollars in millions)	Three Months Ended June 25, 2021	Three Months Ended June 26, 2020	Percent Change	Six Months Ended June 25, 2021	Six Months Ended June 26, 2020	Percent Change
Sales and marketing	$ 12.7	$ 5.9	115.3%	$ 20.3	$ 11.7	73.5%
Sales and marketing as a percentage of total revenues	*2.5%*	*1.7%*		*2.2%*	*1.8%*	

Sales and marketing expenses increased $6.8 million in the three months ended June 25, 2021 compared to the same period in the prior year primarily due to the inclusion of Ham-Let's sales and marketing activities in the second quarter of 2021 and an increase of $1.0 million in personnel-related expenses in the Products business. Sales and marketing expenses increased $8.6 million in the six months ended June 25, 2021 with the comparable period in the prior year due to the inclusion of Ham-Let's sales and marketing activities in the second quarter of 2021 and an increase of $2.3 million in personnel-related expenses driven by higher headcount and bonuses.

General and Administrative

(Dollars in millions)	Three Months Ended June 25, 2021	Three Months Ended June 26, 2020	Percent Change	Six Months Ended June 25, 2021	Six Months Ended June 26, 2020	Percent Change
General and administrative	$ 49.2	$ 33.4	47.3%	$ 83.9	$ 67.3	24.7%
General and administrative as a percentage of total revenues	*9.5%*	*9.7%*		*9.0%*	*10.1%*	

General and administrative expenses increased $15.8 million in the three months ended June 25, 2021, compared to the same period in the prior year, due to $8.1 million of costs related to the acquisition of Ham-Let and to the inclusion of Ham-Let's general and administrative activities in the second quarter of 2021. General and administrative expenses increased $16.6 million in the six months ended June 25, 2021, compared to the same period in the prior year, due to $9.4 million of expenses related to the acquisition of Ham-Let and the inclusion of Ham-Let's general and administrative activities in the second quarter of 2021.

Interest and Other Income (Expense), net

(Dollars in millions)	Three Months Ended June 25, 2021	Three Months Ended June 26, 2020	Percent Change	Six Months Ended June 25, 2021	Six Months Ended June 26, 2020	Percent Change
Interest income	$ 0.1	$ 0.2	-50.0%	$ 0.2	$ 0.5	-60.0%
Interest expense	$ (7.1)	$ (3.8)	86.8%	$ (10.7)	$ (9.0)	18.9%
Other income (expense), net	$ (0.7)	$ 0.6	-216.7%	$ (5.0)	$ (2.1)	138.1%

Interest expense increased in the three and six months ended June 25, 2021, compared to the same periods in the prior year, due to a higher average debt balance offset partially by lower interest rates resulting from lower LIBOR rates.

Other income (expense), net increased $1.3 million in the three months ended June 25, 2021, compared to the same period in the prior year, due to increases in the fair value of the common stock purchase obligation and foreign exchange losses of $0.4 million and $0.3 million, respectively, and due to a decrease of $0.6 million in grants income.

Other income (expense), net increased $2.9 million in the six months ended June 25, 2021, compared to the same period in the prior year, due to an increase of $11.6 million in the fair value of forward hedge contracts related to the non-U.S. dollar-denominated acquisition price of Ham-Let, a $0.8 million increase in foreign exchange losses and a decrease of $0.6 million in government grants income. These increases were partially offset by insurance proceeds of $7.3 million received for the reimbursement of our losses in the Cinos Korea fire and by the absence of $3.0 million loss from the change in fair value of contingent the earn-out in fiscal 2021.

Provision for Income Taxes

	Three Months Ended			Six Months Ended		
(Dollars in millions)	**June 25, 2021**	**June 26, 2020**	**Percent Change**	**June 25, 2021**	**June 26, 2020**	**Percent Change**
Provision for income taxes	$ 6.2	$ 5.7	8.8%	$ 13.2	$ 10.2	29.4%
Effective tax rate	*25.6%*	*20.5%*		*23.2%*	*23.8%*	

The change in respective rates reflects, primarily, changes in the geographic mix of worldwide earnings and financial results in jurisdictions which are taxed at different rates and the impact of losses in jurisdictions with full federal and state valuation allowances.

Company management continuously evaluates the need for a valuation allowance on its deferred tax assets and, as of June 25, 2021, concluded that a full valuation allowance on its federal and state deferred tax assets remained appropriate.

Liquidity and Capital Resources

Cash and cash Equivalents

The following table summarizes our cash and cash equivalents:

(In millions)	**June 25, 2021**	**December 25, 2020**	**Increase**
Total cash and cash equivalents	$ 451.4	$ 200.3	$ 251.1

	Six Months Ended	
(In millions)	**June 25, 2021**	**June 26, 2020**
Net cash flow provided by (used in):		
Operating activities	$ 116.7	$ 33.2
Investing activities	(370.5)	(14.1)
Financing activities	505.2	33.1
Effects of exchange rate changes on cash and cash equivalents	(0.3)	(0.3)
Net increase in cash and cash equivalents	$ 251.1	$ 51.9

Our primary cash inflows and outflows were as follows:

- For the six months ended June 25, 2021, we generated net cash from operating activities of $116.7 million compared to $33.2 million in the six months ended June 26, 2020. The $83.5 million increase in net cash from operating activities was driven by a $61.1 million increase in the net change from operating assets and liabilities, an $11.4 million increase from non-cash items and an $11.0 million increase in net income.
- The major contributors to the net change in operating assets and liabilities, net of effects of acquisition, in the six months ended June 25, 2021 were as follows:
  - o Accounts receivable increased $13.3 million primarily due to the increase in revenues in fiscal 2021 and the timing of collections.
  - o Inventories increased $41.3 million due primarily to the customer demand outlook in 2021.
  - o Accounts payable increased $80.8 million, accrued compensation and related benefits decreased $1.1 million, income taxes payable increased $0.9 million and other liabilities increased $3.8 million, primarily due to the timing of payments.
- In the six months ended June 25, 2021, net cash used by investing activities was $370.5 million compared to $14.1 million in the six months ended June 26, 2020. The change is primarily due to the $355.2 million cash paid related to the acquisition of Ham-let and by $5.7 million higher purchases of property, plant and equipment offset by insurance proceeds of $7.3 million received in the first quarter of fiscal 2021.

- In the six months ended June 25, 2021, net cash provided by financing activities was $505.2 million compared to $33.1 million in the six months ended June 26, 2020. The change is mainly due to $355.0 million of debt added to the existing term loan facility and $193.1 million of net proceeds from the equity offering, offset by principal payments on bank borrowings and of debt issuance costs of $43.4 million and $8.9 million, respectively.

We have required capital to fund our working capital needs, satisfy our debt obligations, maintain our equipment, purchase new capital equipment and make strategic acquisitions from time to time. As of June 25, 2021, we had cash of $451.4 million compared to $200.3 million as of December 25, 2020. Our cash and cash equivalents, cash generated from operations, and amounts available under our revolving line of credit described below were our principal sources of liquidity as of June 25, 2021.

We anticipate that our existing cash and cash equivalents 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 size and number of any acquisitions, the state of the worldwide economy, our ability to meet our financial covenants with our credit facility, the cyclical expansion or contraction of the semiconductor capital equipment industry and the other industries we serve and capital expenditures required to meet possible increased demand for our products.

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

In prior years, we determined that a portion of the current year and future year earnings of one of our China subsidiaries may be remitted in the future to one of our foreign subsidiaries outside of China and, accordingly, we provided for the related withholding taxes in our Condensed Consolidated Financial Statements. As of June 25, 2021, we had undistributed earnings of foreign subsidiaries that are indefinitely invested outside of the U.S. of approximately $317.3 million. As of June 25, 2021, we have cash of approximately $269.0 million in our foreign subsidiaries.

Borrowing Arrangements

The following table summarizes our borrowings:

	June 25, 2021	
(Dollars in millions)	**Amount**	**Weighted-Average Interest Rate**
U.S. Term Loan	$ 598.9	4.24%
Ham-Let Credit Facilities	8.4	1.78% - 4.59%
Cinos China Credit Facilities	2.7	2.05% - 4.10%
Debt issuance costs	(15.3)	
	$ 594.7	

In August 2018, we entered into a credit agreement with Barclays Bank that provided a Term Loan, a Revolving Credit Facility, and a Letter of Credit Facility (the "Credit Facility"). We and some of our subsidiaries have agreed to secure all of their obligations under the Credit Facility by granting a first priority lien in substantially all of our respective personal property assets (subject to certain exceptions and limitations). In August 2018, we borrowed $350.0 million under the Term Loan and used the proceeds, together with cash on hand, to finance the acquisition of QGT and to refinance our previous credit facilities.

On March 31, 2021, we entered into the Second Amendment (the "Second Amendment") to the Credit Facility to, among other things, (i) refinance and reprice its approximately $272.8 million of existing term B borrowings that will remain outstanding (the "Repricing") and (ii) obtain a $355.0 million senior secured incremental term loan B facility (the "Incremental Term Loan") with Barclays Bank, which increased the amount of term loan indebtedness outstanding under the Credit Facility.

The Term Loan has a maturity date of August 27, 2025, with monthly interest payments in arrears, quarterly principal payments of 0.625% of the outstanding principal balance thereof as of March 31, 2021, with the remaining principal paid upon maturity. Under the Credit Agreement, the we may elect that the term loans bear interest at a rate per annum equal to either (a) "ABR" (as defined in the Credit Agreement), plus the applicable margin or (b) the "Eurodollar Rate" (as defined in the Credit Agreement), based on LIBOR, plus the applicable margin. The applicable margin for the term loans under the Credit Agreement is equal to a rate per annum equal to either (i) at any time that our corporate family rating is Ba3 (with a stable outlook) or higher from Moody's and BB- (with a stable outlook) or higher from S&P, (x) 3.50% for such Eurodollar term loans and (y) 2.50% for such ABR term loans or (ii) at all other times, (x) 3.75% for such Eurodollar term loans and (y) 2.75% for such ABR term loans. Interest on the term loans is payable on (1) in the case of such ABR term loans the last day of each calendar quarter and (2) in the case of such Eurodollar term loans, the last day of each relevant interest period and, in the case of any interest period longer than three months, on each successive date three months after the first day of such interest period. On March 29, 2021, we elected that the term loans outstanding as of March 31, 2021 accrue interest based on the "Eurodollar Rate" for an initial interest period of one month. As of March 31, 2021, the applicable margin with respect to the term loan facility was 3.75%. Pursuant to the Second Amendment to the Credit Agreement made effective on March 31, 2021, the Credit Agreement contains customary LIBOR replacement provisions in the event LIBOR is discontinued. At June 25, 2021, we had an outstanding amount under the Term Loan of $598.9 million, gross of unamortized debt issuance costs of $15.3 million. As of June 25, 2021, the interest rate on the outstanding Term Loan was 3.84%. On December 31, 2021, LIBOR will officially be phased out. The Company will work with its bank to determine alternative risk-free rates.

The Revolving Credit Facility has an initial available commitment of $65.0 million and a maturity date of August 27, 2023. We pay a quarterly commitment fee in arrears equal to 0.25% of the average daily available commitment outstanding.

The Credit Agreement requires that we maintain certain financial covenants including a consolidated fixed charge coverage ratio (as defined in the Credit Agreement) as of the last day of any fiscal quarter of at least 1.25 to 1.00, and a consolidated leverage ratio (as defined in the New Credit Agreement) as of the last day of any fiscal quarter of no greater than 3.75 to 1.00. We were in compliance with all covenants for the quarter ended June 25, 2021.

The Letter of Credit Facility has an initial available commitment of $50.0 million and a maturity date of August 27, 2023. We pay quarterly in arrears a fee equal to 2.5% (subject to certain adjustments as per the Term Loans) of the dollar equivalent of all outstanding letters of credit, and a fronting fee equal to 0.125% of the undrawn and unexpired amount of each letter of credit. As of June 25, 2021, we had $2.4 million of outstanding letters of credit with beneficiaries such as landlords of certain facility leases and government agencies making up the majority of the outstanding balance. The remaining available commitments are $47.6 million on the Letter of Credit Facility and $65.0 million on the Revolving Credit Facility.

In 2020, Cinos China amended its existing Credit Agreement and entered into two additional Credit Agreements with a local bank that provide Revolving Credit Facilities for a total available commitment of $3.5 million with various maturity dates through September 23, 2022 and interest rates ranging from 2.0% to 4.1%. As of June 25, 2021, Cinos China had outstanding debt of $2.7 million with an average interest rate of 3.1% under these Credit Agreements.

Cinos Korea has a Credit Agreement that provides a Revolving Credit Facility for a total available commitment of 0.6 billion Korean Won (approximately $0.5 million) with annual renewals beginning June 2022 with an interest rate of 2.9%. During the six months ended June 26, 2020, borrowings under the Revolving Credit Facility were insignificant and no debt was outstanding as of June 25, 2021.

UCT Fluid Delivery Solutions s.r.o. has a credit agreement with a local bank in the Czech Republic that provides for a revolving credit facility in the aggregate of up to 6.0 million euros. As of June 25, 2021, no debt was outstanding under this revolving credit facility.

Ham-Let has credit facilities and other loan agreements with various financial institutions. As of June 25, 2021, Ham-Let had $8.4 million of outstanding debt with interest rates ranging from 1.8% to 4.6%.

As of June 25, 2021, our total bank debt was $594.7 million, net of unamortized debt issuance costs of $15.3 million. As of June 25, 2021, we had unused revolving credit facilities of $65.0 million, $9.8 million and $0.8 million in the United States, Czech Republic and China, respectively.

The fair value of our long-term debt was based on Level 2 inputs, and fair value was determined using quoted prices for similar liabilities in inactive markets. The carrying value of our long-term debt approximates fair value.

Capital Expenditures

Capital expenditures were $22.8 million during the six months ended June 26, 2020 and were primarily attributable to the capital invested in our manufacturing facilities in the United States, China and South Korea as well as costs associated with the ongoing design and implementation of our new enterprise resource planning system. The Company's anticipated capital expenditures for the remainder of 2021 are expected to be financed primarily from our cash flow generated from operations.

Off-Balance Sheet Arrangements

During the periods presented, we do not have 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.

In conjunction with the sale of our products in the ordinary course of business, we provide standard indemnification against certain liabilities to our customers, which may include claims of losses by their own customers resulting out of property damages, bodily injuries or deaths, or infringement of intellectual property rights by our products. Our potential liability arising out of intellectual property infringement claims by any third party is generally uncapped. As of June 25, 2021, we have not incurred any significant costs to defend lawsuits or settle claims related to these indemnification arrangements. As a result, we believe the estimated fair value of these arrangements is minimal.

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 or similar instruments and, other than the arrangements described under "Borrowing Arrangements" above and our common stock purchase obligations resulting from the acquisition of QGT, 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 June 25, 2021:

(In millions)	Total	Fiscal Year 2021	Fiscal Years 2022 - 2023	Fiscal Years 2024 - 2025	Beyond
Operating leases (1)	$ 101.7	$ 10.2	$ 36.1	$ 23.4	$ 32.0
Borrowing arrangements (2)	610.0	21.4	29.0	559.6	—
Common stock purchase obligation (3)	14.0	—	14.0	—	—
Purchase order commitments (4)	405.1	405.1	—	—	—
Total	$ 1,130.8	$ 436.7	$ 79.1	$ 583.0	$ 32.0

(1) The Company leases facilities in the United States as well as internationally under non-cancellable leases that expire on various dates through 2031. The total balance of $101.7 million reflects estimated cash payments for all of the Company's operating leases, however, the total operating lease liabilities as disclosed in the condensed consolidated balance sheets are presented on a discounted present value basis and excludes lease agreements with commencement date after June 25, 2021, in accordance with the provisions of ASC 842, "Leases".

(2) The total borrowing arrangements reflects obligations gross of $15.3 million of unamortized debt issuance costs.

(3) The Company is obligated to purchase the common stock owned by one of Cinos Korea' shareholders. On July 24, 2021, the Company entered into an amendment with the Cinos Korea shareholder to eliminate the obligation to purchase certain amount of the common stock owned by the shareholder. As a result, noncontrolling interest in Cinos Korea would increase by 35.0% beginning in the third quarter of fiscal 2021.

(4) Represents our outstanding purchase orders primarily for inventory.

ITEM 3. Quantitative and Qualitative Disclosures About Market Risk

There were no significant changes to our quantitative and qualitative disclosures about market risk during the period covered by this report. Refer to Part II, Item 7A. "Quantitative and Qualitative Disclosures about Market Risk" included in our Annual Report on Form 10-K for our fiscal year ended December 25, 2020 for a more complete discussion of the market risks we encounter.

ITEM 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act as of the end of the period covered by this report (the "Evaluation Date"). Based on this evaluation, our principal executive officer and principal financial officer concluded as of the Evaluation Date that our disclosure controls and procedures were effective such that the information related to the Company, including our consolidated subsidiaries, required to be disclosed in our SEC reports (i) is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms, and (ii) is accumulated and communicated to the Company's management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting

There were no changes in internal controls over financial reporting during the first fiscal quarter ended June 25, 2021, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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 Condensed Consolidated Statement of Operations and do not believe that any of these proceedings or other claims will have a material adverse effect on our condensed consolidated financial condition or results of operations.

ITEM 1A. Risk Factors

There were no material changes during the period covered in this report to the risk factors previously disclosed in Part I, Item 1A, of our Annual Report on Form 10-K for the year ended December 25, 2020 (as updated in our Current Report on Form 8-K filed on April 5, 2021).

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

None.

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 quarterly Report on Form 10-Q for the quarter ended June 25, 2021:

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.
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	Inline XBRL Instance Document – the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
101.SCH	Inline XBRL Taxonomy Extension Schema Document
101.CAL	Inline XBRL Taxonomy Calculation Linkbase Document
101.DEF	Inline XBRL Taxonomy Definition Linkbase Document
101.LAB	Inline XBRL Taxonomy Label Linkbase Document
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover Page Interactive Data File (formatted as inline XBRL and contained in Exhibit 101)

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: August 4, 2021

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

Date: August 4, 2021

By:	/S/ SHERI SAVAGE
Name:	**Sheri Savage**
Title:	**Chief Financial Officer (Principal Financial Officer and duly authorized signatory)**

Exhibit 31.1

CERTIFICATION

I, James P. Scholhamer, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Ultra Clean Holdings, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 4, 2021

/s/ JAMES P. SCHOLHAMER

James P. Scholhamer
Chief Executive Officer

Exhibit 31.2

CERTIFICATION

I, Sheri Savage, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Ultra Clean Holdings, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 4, 2021

/s/ SHERI SAVAGE
Sheri Savage
Chief Financial Officer and Senior Vice President of Finance

Exhibit 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

The certification set forth below is being submitted in connection with the Quarterly Report on Form 10-Q (the “Report”) of Ultra Clean Holdings, Inc. (the “Company”) for the purpose of complying with Rule 13a-14(b) or Rule 15d-14(b) of the Securities Exchange Act of 1934 (the “Exchange Act”) and Section 1350 of Chapter 63 of Title 18 of the United States Code.

James P. Scholhamer, the Chief Executive Officer and Sheri Savage, the Chief Financial Officer of the Company, each certifies that, to the best of his or her knowledge:

(1) the Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 4, 2021

/s/ JAMES P. SCHOLHAMER
James P. Scholhamer
Chief Executive Officer

Date: August 4, 2021

/s/ SHERI SAVAGE
Sheri Savage
Chief Financial Officer and Senior Vice President of Finance