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 28, 2024

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	**61-1430858**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
26462 Corporate Avenue, Hayward, California	**94545**
(Address of principal executive offices)	**(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 19, 2024: 45,030,636

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 28, 2024	December 29, 2023
ASSETS		
Current assets:		
Cash and cash equivalents	$ 319.5	$ 307.0
Accounts receivable, net of allowance for credit losses of $2.1 and $1.0 at June 28, 2024 and December 29, 2023, respectively	206.9	180.8
Inventories	399.9	374.5
Prepaid expenses and other current assets	34.5	30.9
Total current assets	960.8	893.2
Property, plant and equipment, net	326.6	328.3
Goodwill	265.2	265.2
Intangible assets, net	200.0	215.3
Deferred tax assets, net	3.1	3.1
Operating lease right-of-use assets	161.3	151.7
Other non-current assets	10.3	10.9
Total assets	$ 1,927.3	$ 1,867.7
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Bank borrowings	$ 16.3	$ 17.6
Accounts payable	229.0	192.9
Accrued compensation and related benefits	49.2	47.7
Operating lease liabilities	18.7	18.1
Other current liabilities	38.2	33.7
Total current liabilities	351.4	310.0
Bank borrowings, net of current portion	478.3	461.2
Deferred tax liabilities	18.9	19.0
Operating lease liabilities	152.4	143.0
Other liabilities	14.6	37.3
Total liabilities	1,015.6	970.5
Commitments and contingencies (See Note 9)		
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; 46.5 and 46.1 shares issued and 45.0 and 44.6 shares outstanding at June 28, 2024 and December 29, 2023, respectively	0.1	0.1
Additional paid-in capital	548.2	541.5
Common shares held in treasury, at cost, 1.5 and 1.5 shares at June 28, 2024 and December 29, 2023, respectively	(45.0)	(45.0)
Retained earnings	356.4	346.7
Accumulated other comprehensive loss	(7.4)	(4.4)
Total UCT stockholders' equity	852.3	838.9
Noncontrolling interests	59.4	58.3
Total equity	911.7	897.2
Total liabilities and equity	$ 1,927.3	$ 1,867.7

(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		Six Months Ended	
	June 28, 2024	June 30, 2023	June 28, 2024	June 30, 2023
Revenues:				
Product	$ 452.7	$ 362.5	$ 871.2	$ 731.1
Services	63.4	59.0	122.7	123.7
Total revenues	516.1	421.5	993.9	854.8
Cost of revenues:				
Product	383.9	311.1	738.0	626.2
Services	43.7	42.3	84.8	87.5
Total cost revenues	427.6	353.4	822.8	713.7
Gross margin	88.5	68.1	171.1	141.1
Operating expenses:				
Research and development	7.1	7.2	14.1	14.3
Sales and marketing	14.8	12.7	28.5	25.8
General and administrative	43.7	35.6	88.3	76.0
Total operating expenses	65.6	55.5	130.9	116.1
Income from operations	22.9	12.6	40.2	25.0
Interest income	1.4	0.8	2.8	1.3
Interest expense	(11.7)	(11.8)	(23.9)	(23.6)
Other income (expense), net	17.4	(1.5)	13.5	1.3
Income before provision for income taxes	30.0	0.1	32.6	4.0
Provision for income taxes	8.5	8.3	18.4	11.8
Net income (loss)	21.5	(8.2)	14.2	(7.8)
Less: Net income attributable to noncontrolling interests	2.4	1.2	4.5	5.0
Net income (loss) attributable to UCT	$ 19.1	$ (9.4)	$ 9.7	$ (12.8)
Net income (loss) per share attributable to UCT common stockholders:				
Basic	$ 0.43	$ (0.21)	$ 0.22	$ (0.29)
Diluted	$ 0.42	$ (0.21)	$ 0.21	$ (0.29)
Shares used in computing net income (loss) per share:				
Basic	44.9	44.7	44.7	44.8
Diluted	45.4	44.7	45.3	44.8

(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 28, 2024	June 30, 2023	June 28, 2024	June 30, 2023
Net income (loss)	$ 21.5	$ (8.2)	$ 14.2	$ (7.8)
Other comprehensive income (loss):				
Change in cumulative translation adjustment, net of tax	(2.0)	0.4	(6.3)	(1.7)
Change in pension net actuarial gain, net of tax	—	(0.4)	—	(0.2)
Change in fair value of derivatives, net of tax	—	—	—	0.2
Total other comprehensive loss	(2.0)	—	(6.3)	(1.7)
Comprehensive income (loss)	19.5	(8.2)	7.9	(9.5)
Comprehensive income, attributable to noncontrolling interests	1.3	2.2	1.2	7.4
Comprehensive income (loss) attributable to UCT	$ 18.2	$ (10.4)	$ 6.7	$ (16.9)

(See accompanying Notes to Condensed Consolidated Financial Statements)

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

(In millions)	Six Months Ended June 28, 2024	Six Months Ended June 30, 2023
Cash flows from operating activities:		
Net income (loss)	$ 14.2	$ (7.8)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	22.7	18.2
Amortization of intangible assets	15.3	11.4
Stock-based compensation	8.0	4.7
Amortization of debt issuance costs	1.9	1.9
Change in the fair value of financial instruments	(22.6)	(0.2)
Deferred income taxes	(0.5)	(0.6)
Loss (gain) on sale of property, plant and equipment	0.1	(0.4)
Changes in assets and liabilities:		
Accounts receivable	(26.1)	75.1
Inventories	(25.4)	45.1
Prepaid expenses and other current assets	(1.5)	5.2
Other non-current assets	0.7	(0.3)
Accounts payable	41.4	(62.6)
Accrued compensation and related benefits	1.5	(12.5)
Income taxes payable	1.4	(4.3)
Operating lease assets and liabilities	0.5	(2.9)
Other liabilities	1.4	(5.6)
Net cash provided by operating activities	33.0	64.4
Cash flows from investing activities:		
Purchases of property, plant and equipment	(31.0)	(47.0)
Proceeds from sale of equipment	0.1	0.5
Net cash used in investing activities	(30.9)	(46.5)
Cash flows from financing activities:		
Proceeds from bank borrowings	67.7	—
Proceeds from issuance of common stock	0.9	—
Extinguishment of bank borrowings	(44.2)	—
Principal payments on bank borrowings	(7.1)	(30.9)
Payment of debt issuance costs	(2.5)	—
Employees' taxes paid upon vesting of restricted stock units	(2.2)	(2.2)
Payments of dividends to a joint venture shareholder	(0.1)	(0.1)
Repurchase of shares	—	(23.7)
Net cash provided by (used in) financing activities	12.5	(56.9)
Effect of exchange rate changes on cash and cash equivalents	(2.1)	1.0
Net increase (decrease) in cash and cash equivalents	12.5	(38.0)
Cash and cash equivalents at beginning of period	307.0	358.8
Cash and cash equivalents at end of period	$ 319.5	$ 320.8
Supplemental cash flow information:		
Income taxes paid, net of income tax refunds	$ 17.7	$ 17.4
Interest paid	$ 22.3	$ 21.7
Non-cash investing and financing activities:		
Property, plant and equipment purchased included in accounts payable and other liabilities	$ 4.3	$ 9.2

(See accompanying Notes to Condensed Consolidated Financial Statements)

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

	Three Months Ended June 28, 2024									
	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 29, 2024	44.6	$ 0.1	$ 545.0	1.5	$ (45.0)	$ 337.3	$ (6.5)	$ 830.9	$ 58.2	$ 889.1
Issuance under employee stock plans	0.5	—	0.9	—	—	—	—	0.9	—	0.9
Employees' taxes paid upon vesting of restricted stock units	(0.1)	—	(2.2)	—	—	—	—	(2.2)	—	(2.2)
Stock-based compensation expense	—	—	4.5	—	—	—	—	4.5	—	4.5
Net income	—	—	—	—	—	19.1	—	19.1	2.4	21.5
Dividend payments to a joint venture shareholder	—	—	—	—	—	—	—	—	(0.1)	(0.1)
Other comprehensive loss	—	—	—	—	—	—	(0.9)	(0.9)	(1.1)	(2.0)
Balance June 28, 2024	45.0	$ 0.1	$ 548.2	1.5	$ (45.0)	$ 356.4	$ (7.4)	$ 852.3	$ 59.4	$ 911.7

	Six Months Ended June 28, 2024									
	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 29, 2023	44.6	$ 0.1	$ 541.5	1.5	$ (45.0)	$ 346.7	$ (4.4)	$ 838.9	$ 58.3	$ 897.2
Issuance under employee stock plans	0.5	—	0.9	—	—	—	—	0.9	—	0.9
Employees' taxes paid upon vesting of restricted stock units	(0.1)	—	(2.2)	—	—	—	—	(2.2)	—	(2.2)
Stock-based compensation expense	—	—	8.0	—	—	—	—	8.0	—	8.0
Net income	—	—	—	—	—	9.7	—	9.7	4.5	14.2
Dividend payments to a joint venture shareholder	—	—	—	—	—	—	—	—	(0.1)	(0.1)
Other comprehensive loss	—	—	—	—	—	—	(3.0)	(3.0)	(3.3)	(6.3)
Balance June 28, 2024	45.0	$ 0.1	$ 548.2	1.5	$ (45.0)	$ 356.4	$ (7.4)	$ 852.3	$ 59.4	$ 911.7

	Three Months Ended June 30, 2023									
	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 31, 2023	44.8	$ 0.1	$ 534.3	1.4	$ (29.6)	$ 374.4	$ (8.5)	$ 870.7	$ 54.3	$ 925.0
Issuance under employee stock plans	0.4	—	—	—	—	—	—	—	—	—
Employees' taxes paid upon vesting of restricted stock units	(0.1)	—	(2.0)	—	—	—	—	(2.0)	—	(2.0)
Repurchase shares	(0.3)	—	—	0.3	(9.5)	—	—	(9.5)	—	(9.5)
Stock-based compensation expense	—	—	1.0	—	—	—	—	1.0	—	1.0
Net income (loss)	—	—	—	—	—	(9.4)	—	(9.4)	1.2	(8.2)
Dividend payments to a joint venture shareholder	—	—	—	—	—	—	—	—	(0.1)	(0.1)
Other comprehensive income (loss)	—	—	—	—	—	—	(1.0)	(1.0)	1.0	—
Balance June 30, 2023	44.8	$ 0.1	$ 533.3	1.7	$ (39.1)	$ 365.0	$ (9.5)	$ 849.8	$ 56.4	$ 906.2

	Six Months Ended June 30, 2023									
	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 31, 2022	45.2	$ 0.1	$ 530.8	0.9	$ (15.4)	$ 377.8	$ (5.4)	$ 887.9	$ 49.1	$ 937.0
Issuance under employee stock plans	0.5	—	—	—	—	—	—	—	—	—
Employees' taxes paid upon vesting of restricted stock units	(0.1)	—	(2.2)	—	—	—	—	(2.2)	—	(2.2)
Repurchase shares	(0.8)	—	—	0.8	(23.7)	—	—	(23.7)	—	(23.7)
Stock-based compensation expense	—	—	4.7	—	—	—	—	4.7	—	4.7
Net income (loss)	—	—	—	—	—	(12.8)	—	(12.8)	5.0	(7.8)
Dividend payments to a joint venture shareholder	—	—	—	—	—	—	—	—	(0.1)	(0.1)
Other comprehensive income (loss)	—	—	—	—	—	—	(4.1)	(4.1)	2.4	(1.7)
Balance June 30, 2023	44.8	$ 0.1	$ 533.3	1.7	$ (39.1)	$ 365.0	$ (9.5)	$ 849.8	$ 56.4	$ 906.2

ULTRA CLEAN HOLDINGS, INC.

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ULTRA CLEAN HOLDINGS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Organization — Ultra Clean Holdings, Inc., (the "Company" or "UCT") a Delaware corporation, was founded in November 2002 and became a publicly traded company on the NASDAQ Global Market in March 2004. The Company is a leading developer and supplier of critical subsystems, components, 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'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, sub-fab process equipment support racks, 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.

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 a fair statement of the results of operations, financial position, and cash flows for the interim periods presented. Certain information and footnote disclosures normally included in our annual financial statements, prepared in accordance with GAAP, have been condensed or omitted from the interim financial statements in this Quarterly Report on Form 10-Q. Therefore, these unaudited financial statements should be read in conjunction with the Consolidated Financial Statements contained in the Company's Annual Report on Form 10-K for the year ended December 29, 2023.

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 and all intercompany accounts and transactions have been eliminated upon consolidation.

Significant Accounting Policies — There were no changes to the accounting policies disclosed in Note 1, Organization and Significant Accounting Polices of the Company's Annual Report on Form 10-K for the year ended December 29, 2023 that had a material impact on the Company's condensed consolidated financial statements and related notes.

Impairment Testing of Long-Lived Assets and Goodwill — In the second quarter of 2024, the Company conducted an interim impairment test of its long-lived assets and goodwill associated with its HIS Innovations Group ("HIS") reporting unit due to the presence of an indicator of potential impairment. This indicator included lower-than-expected financial performance.

The Company reviewed the HIS asset group's long-lived assets for impairment by comparing the carrying value to the estimated undiscounted future cash flows expected to be generated by the assets. Based on this assessment, the Company determined that the estimated undiscounted future cash flows exceeded the carrying values of the long-lived assets. Consequently, no impairment loss was recognized in the period.

The Company performed a quantitative assessment of goodwill for the HIS reporting unit using the income approach. The income approach involves estimating the future cash flows attributable and discounting these cash flows to their present value using an appropriate discount rate. The fair value of the reporting unit was then compared to its carrying amount, including goodwill. The results of this quantitative assessment indicated that the fair value of the reporting unit exceeded its carrying amount. As a result, the Company concluded that no impairment of goodwill was necessary.

Accounting Standards Recently Adopted

The Company has not adopted any new accounting standards during the six months ended June 28, 2024 that have a material impact on the Company's condensed consolidated financial statements.

Accounting Standards Not Yet Adopted

In November 2023, FASB issued Accounting Standard Update (ASU) No. 2023-07, Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures, which requires a public entity to disclose significant segment expenses and other segment items on an annual and interim basis and provide in interim periods all disclosures about a reportable segment's profit or loss and assets that are currently required annually. The ASU does not change how a public entity identifies its operating segments, aggregates them, or applies the quantitative thresholds to determine its reportable segments. The Company is required to adopt this standard in the fiscal year 2024 for the annual reporting ending December 27, 2024, with retrospective disclosure of prior periods presented. The Company expects this ASU to only impact its disclosures with no impact to its results of operations, cash flows and financial condition.

In December 2023, the FASB issued ASU No. 2023-09, Income Taxes (Topic 740): Improvements to Income Tax Disclosures, which amends the guidance in ASC 740, Income Taxes. ASU No. 2023-09 is intended to improve the transparency of income tax disclosures by requiring (1) consistent categories and greater disaggregation of information in the rate reconciliation and (2) income taxes paid disaggregated by jurisdiction. It also includes certain other amendments to improve the effectiveness of income tax disclosures. The Company is required to adopt this standard prospectively in fiscal year 2025 for the annual reporting period ending December 26, 2025. The Company is currently evaluating the potential impact of adopting this new guidance on its consolidated financial statements and related disclosures.

2. BUSINESS COMBINATIONS

On October 25, 2023, the Company acquired 100% of the shares of HIS, a privately held company based in Hillsboro, Oregon. HIS is a leading supplier to the semiconductor sub-fab segment including the design, manufacturing, and integration of components, process solutions, and fully integrated sub-systems. The acquisition strengthens the Company's leadership in developing and supplying critical products to the semiconductor industry, and extends our reach into the sub-fab area.

The purchase price of HIS for purposes of the Company's preliminary purchase price allocation was determined to be $73.6 million, which includes initial cash consideration of $46.5 million and the fair value of potential earn-out payments of approximately $27.1 million. These potential earn-out payments represent up to $70.0 million of cash consideration that may be payable based on the financial performance of the acquired business during the fiscal years 2023, 2024, and 2025. The fair value of the potential earn-out payments was determined utilizing a Monte Carlo simulation model.

The Company has assigned the purchase price of HIS to the tangible assets, liabilities and identifiable intangible assets acquired, based on their estimated fair values. The excess of purchase price over the aggregate fair 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 a 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 and with the assistance of a valuation specialist.

The assigned purchase price is preliminary pending the completion of various analyses and the finalization of estimates. The primary areas of the purchase price that are not yet finalized relate to the measurement of working capital, acquired income tax related balances, 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. Assets acquired and liabilities assumed 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 the resulting amount of goodwill.

The following table summarizes the preliminary fair values of assets acquired and liabilities assumed at the date of acquisition:

(In millions)	Amount
Cash and cash equivalents	$ 0.4
Accounts receivable	5.6
Inventories	11.4
Prepaid expenses and other assets	2.7
Property, plant and equipment	9.3
Purchased intangible assets	51.6
Operating lease right-of-use assets	7.5
Accounts payable	(8.1)
Accrued compensation and related benefits	(0.7)
Other current liabilities	(0.9)
Deferred tax liabilities	(12.0)
Operating lease liabilities	(9.6)
Total identifiable net assets	$ 57.2
Goodwill	$ 16.4

The following table summarizes the intangible assets acquired and the useful lives of these assets:

	Useful Life (In years)	Purchased Intangible Assets (In millions)
Customer relationships	7	$ 35.2
IP knowhow	5	11.2
Developed technology	5	4.6
Backlog	1	0.6
Total purchased intangible assets		$ 51.6

The results of operations for HIS have been included in the Company's condensed consolidated financial statements since the date of the acquisition. In addition, acquisition-related costs of $0.3 million were included in the results of operations for the six months ended June 28, 2024. Acquisition-related costs for the three months ended June 28, 2024 and for the three and six months ended June 30, 2023 were immaterial. Acquisition costs are included in general and administrative expenses in the Company’s condensed consolidated results of operations.

3. BALANCE SHEET INFORMATION

Inventories consisted of the following:

(In millions)	June 28, 2024	December 29, 2023
Raw materials	$ 206.9	$ 197.9
Work in process	132.2	107.2
Finished goods	60.8	69.4
Total	$ 399.9	$ 374.5

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

(In millions)	June 28, 2024	December 29, 2023
Land	$ 7.2	$ 5.6
Buildings	54.1	57.1
Leasehold improvements	132.2	110.8
Machinery and equipment	213.4	207.4
Computer equipment and software	77.2	72.2
Furniture and fixtures	4.3	5.0
	488.4	458.1
Accumulated depreciation	(192.1)	(170.3)
Construction in progress	30.3	40.5
Total	$ 326.6	$ 328.3

Long-lived assets used in operations are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable and the undiscounted cash flows estimated to be generated by the asset are less than the asset's carrying value. Refer to Note 1, "Organization and Significant Accounting Policies" for additional information regarding impairment testing of long-lived assets.

4. FAIR VALUE

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 28, 2024**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
(In millions)				
Other non-current assets:				
Plan assets	$ 0.7	$ —	$ —	$ 0.7
Other current liabilities:				
Forward contracts	$ 0.3	$ —	$ 0.3	$ —
Other liabilities:				
Pension obligation	$ 1.5	$ —	$ —	$ 1.5
Contingent earn-out	$ 6.3	$ —	$ —	$ 6.3

		Fair Value Measurement at Reporting Date Using		
Description	**December 29, 2023**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
(In millions)				
Other non-current assets:				
Plan assets	$ 1.3	$ —	$ —	$ 1.3
Other current liabilities:				
Forward contracts	$ 0.1	$ —	$ 0.1	$ —
Other liabilities:				
Pension obligation	$ 1.6	$ —	$ —	$ 1.6
Contingent earn-out	$ 29.1	$ —	$ —	$ 29.1

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.

The estimated fair value of pension obligation is based on expected years of service and average compensation. The valuation model used to value 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 resulting in a Level 3 classification. As of June 28, 2024, the Company's aggregate pension benefit obligations was $11.6 million and the fair value of the pension plan assets was $10.8 million. The underfunded pension benefit obligations was $0.8 million as of June 28, 2024. The Company recognizes the overfunded or underfunded status of defined benefit pension plans, measured as the difference between the fair value of the plan assets and the benefit obligation. Each overfunded plan is recognized as an asset and each underfunded plan is recognized as a liability.

The Company measures its contingent earn-out liabilities at fair value on a recurring basis using a Monte Carlo simulation model. The significant unobservable inputs used in the model include the forecasted operating profit of the acquired business during each of calendar years 2024 and 2025. Significant increases or decreases to the forecasted results would result in a significantly higher or lower liability, with a higher liability capped by the contractual maximum of the contingent earn-out obligation. Ultimately, the liability will be equivalent to the amount paid, and the difference between the fair value estimate and amount paid will be recorded in earnings. The amount paid that is less than or equal to the contingent earn-out liability on the acquisition date is reflected as cash used in financing activities in the consolidated statements of cash flows. Any amount paid in excess of the contingent earn-out liability on the acquisition date will be reflected as cash used in operating activities in the consolidated statements of cash flows. For the three and six months ended June 28, 2024, the Company recorded $24.1 million and $22.8 million, respectively of gain from change in the fair value of contingent earn-out related to the acquisition of HIS. This gain from change in the fair value was recognized as other income (expense), net in the Condensed Consolidated Statements of Operations.

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.

5. GOODWILL AND INTANGIBLE ASSETS

Goodwill

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.

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.

During the three and six months ended June 28, 2024, there were no changes to the Company's reporting units, and the Company did not recognize any impairment charges or additions to goodwill. Refer to Note 1, “Organization and Significant Accounting Policies” for additional information regarding impairment testing of goodwill.

Details of aggregate goodwill of the Company are as follows:

(In millions)	Products	Services	Total
Balance at June 28, 2024	$ 191.7	$ 73.5	$ 265.2

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 finite-lived intangible assets for impairment whenever events or changes in circumstances indicate the carrying value may not be recoverable and evaluates indefinite-lived intangible asset for impairment annually, or more frequently if indicators of potential impairment exist. 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. Refer to Note 1, “Organization and Significant Accounting Policies” for additional information regarding impairment testing of intangible assets.

Details of intangible assets were as follows:

		As of June 28, 2024			As of December 29, 2023		
(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	$ 207.2	$ (107.5)	$ 99.7	$ 207.2	$ (97.5)	$ 109.7
Recipes	20	73.2	(21.4)	51.8	73.2	(19.5)	53.7
Intellectual property/know-how	7 - 15	48.9	(20.6)	28.3	48.9	(18.4)	30.5
Tradename	4 - 6*	32.5	(22.5)	10.0	32.5	(22.1)	10.4
Standard operating procedures	20	8.6	(2.5)	6.1	8.6	(2.3)	6.3
Developed technology	5	4.6	(0.6)	4.0	4.6	(0.2)	4.4
Backlog	1	0.6	(0.5)	0.1	0.6	(0.3)	0.3
Total		$ 375.6	$ (175.6)	$ 200.0	$ 375.6	$ (160.3)	$ 215.3

* The Company concluded that the asset life of 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 $7.6 million and $15.3 million for the three and six months ended June 28, 2024, respectively, and $5.5 million and $11.4 million for the three and six months ended June 30, 2023, respectively. Amortization expense related to recipes, standard operating procedures, developed technology 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 28, 2024, future estimated amortization expense is expected to be as follows:

(In millions)	Amortization Expense
2024 (remaining in year)	$ 15.1
2025	28.1
2026	27.2
2027	26.9
2028	23.8
Thereafter	69.9
Total	$ 191.0

6. BORROWING ARRANGEMENTS

On April 4, 2024, the Company entered into a Sixth Amendment (the “Sixth Amendment”) to the Credit Agreement dated as of August 27, 2018 (as amended as of October 1, 2018, March 31, 2021, August 19, 2022, June 29, 2023 and July 27,

2023 (the "Existing Credit Agreement"), and the Existing Credit Agreement as further amended by the Sixth Amendment, the "Credit Agreement"). Pursuant to the Sixth Amendment, the Existing Credit Agreement was amended to, among other things, (i) extend the final maturity date of the term loan and revolving credit facilities under the Credit Agreement by 30 months; (ii) reduce the interest rate applicable to the term loan facility under the Credit Agreement by 0.25% per annum; and (iii) increase the outstanding amount under the Term Loan of $475.4 million to $500 million.

The Sixth Amendment resulted in the receipts of an additional $67.7 million of debt, net of $1.1 million related lender fees from new or existing syndicate lenders which was offset by syndicate lenders who reduced their positions by $44.2 million. The Company capitalized additional $2.5 million of costs related to this amendment and continued to defer previously capitalized costs of $5.2 million. The Company expensed the third party transaction costs and the previously capitalized costs of extinguished debt of $3.6 million which was included in the other income (expense), net in the Condensed Consolidated Statements of Operations for the three and six month period ended June 28, 2024.

The Company pays monthly interest payments in arrears and quarterly principal payments of 0.625% of the outstanding principal balance since April 4, 2024, with the remaining principal paid upon maturity.

The revolving credit facility has an available commitment of $150.0 million and a maturity date of August 27, 2027. The Company pays a quarterly commitment fee in arrears equal to 0.25% of the average daily available commitment outstanding. Outstanding letters of credit reduce the availability of the revolving credit facility and, as of June 28, 2024, the Company had $146.1 million, net of $3.9 million of outstanding letters of credit, available under this revolving credit facility.

The letter of credit facility has an available commitment of $50.0 million and a maturity date of August 27, 2027. The Company pays a quarterly fee in arrears equal to 2.5% (subject to certain adjustments to the Term Loan) 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 28, 2024, the Company had $3.9 million of outstanding letters of credit and $46.1 million of available commitments remaining under the letter of credit facility.

On June 29, 2023, the Company entered into a Fourth Amendment (the "Fourth Amendment") to the Credit Agreement to replace the LIBOR-based reference interest rate option with a reference interest option based upon Term SOFR under the Credit Agreement.

Under the Credit Agreement, the Company may elect that the Term Loan 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 SOFR, plus the applicable margin. The applicable margin for the Term Loan 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) 3.25% for such Eurodollar term loans and (y) 2.25% for such ABR term loans or (ii) at all other times, (x) 3.50% for such Eurodollar term loans and (y) 2.50% for such ABR term loans. Interest on the Term Loan 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.

At June 28, 2024, the Company had an outstanding amount under the Term Loan of $496.9 million, gross of unamortized debt issuance costs of $8.3 million. As of June 28, 2024, the interest rate on the outstanding Term Loan was 9.0%.

The Credit Agreement requires the Company to maintain certain financial covenants including a consolidated fixed charge coverage ratio and a consolidated leverage ratio (as defined in the Credit Agreement) as of the last day of any fiscal quarter. The Company currently has no revolving loans outstanding under the Credit Agreement. As of June 28, 2024, the Company was in compliance with the financial covenants contained within the Credit Agreement.

The Company 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 7.0 million euros (approximately $7.5 million). As of June 28, 2024, no debt was outstanding under this revolving credit facility.

Fluid Solutions has credit facilities with various financial institutions in Israel that provides borrowing up to $11.0 million. As of June 28, 2024, Fluid Solutions had a $6.0 million outstanding balance under these facilities with average interest rate ranges from 7.5% to 7.8%.

As of June 28, 2024, the Company's total bank debt was $494.6 million, net of unamortized debt issuance costs of $8.3 million. As of June 28, 2024, the Company had $146.1 million, $5.0 million, and $7.5 million available to draw from its credit facilities in the U.S., Israel and Czech Republic, 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.

7. INCOME TAX

The Company's effective tax rate was 28.3% and 8300.0% for the three months ended June 28, 2024 and June 30, 2023, respectively, and 56.4% and 295.0% for the six months ended June 28, 2024 and June 30, 2023, respectively. The Company's income tax provision was $8.5 million and $8.3 million for the three months ended June 28, 2024 and June 30, 2023, respectively, and $18.4 million and $11.8 million for the six months ended June 28, 2024 and June 30, 2023, respectively. The change in respective tax 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 valuation allowances on deferred tax assets. Company management continuously evaluates the need for a valuation allowance and, as of June 28, 2024, concluded that a full valuation allowance on its U.S. federal and state and certain of its foreign deferred tax assets was still appropriate.

During the three months ended June 28, 2024, the Company received final approval for the renewal of a reduced tax rate incentive on qualified earnings of one of the Company's subsidiaries in Singapore, effective beginning of the Company's 2024 fiscal year through December 31, 2028. The reduced tax rate on the qualifying income was reflected in the effective tax rate and income tax provision for the three and six months ended June 28, 2024 and June 30, 2023.

As of June 28, 2024 and June 30, 2023, the Company's gross liability for unrecognized tax benefits, excluding interest, was $3.1 million and $2.7 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.

8. RETIREMENT PLANS

Defined Benefit Plans

Cinos Korea has a noncontributory defined benefit pension plan covering substantially all of its employees upon their retirement. The Company's entities in Israel also have noncontributory defined benefit pension plans covering their employees upon their retirement. The benefits for these plans 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 plans are reasonable based on its experience and market conditions.

As of June 28, 2024, the benefit obligation of the plans was $11.6 million and the fair value of the benefit plan assets was $10.8 million which are invested in several fixed deposit accounts with financial institutions. As of June 28, 2024, the underfunded balance of the plans of $0.8 million has been recorded by the Company and is included in other liabilities.

Amounts recognized in accumulated other comprehensive loss and contributed for the three and six months ended June 28, 2024 were negligible. The Company and its subsidiaries contributed $0.1 million during the three and six months ended June 30, 2023 and recognized $0.4 million and $0.2 million in accumulated other comprehensive loss for the three and six months ended June 30, 2023.

As of June 28, 2024, the Company's future estimated payment obligations for the respective fiscal years are as follows:

(In millions)	
2024	$ 0.6
2025	1.6
2026	2.4
2027	1.3
2028	1.1
Thereafter	10.2
Total	$ 17.2

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 each employee's contribution, up to a maximum of 6% of the employee's eligible earnings. The Company made $0.9 million and $1.9 million discretionary employer contributions to the 401(k) Plan for the three and six months ended June 28, 2024 and $0.8 million and $1.6 million for the three and six months ended June 30, 2023.

9. COMMITMENTS AND CONTINGENCIES

Commitments

The Company leases real estate and equipment under various non-cancelable operating leases.

Contingencies

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.

10. STOCKHOLDERS' EQUITY AND NONCONTROLLING INTERESTS

Treasury Stock

On October 20, 2022, the Board of Directors approved a share repurchase program authorizing the Company to purchase up to an aggregate of $150 million of the Company's common stock over a three-year period. No shares were repurchased under this program for the three and six months ended June 28, 2024. For the three and six months ended June 30, 2023, approximately 0.3 million and 0.8 million shares were repurchased under this program with an aggregate cost of $9.5 million and $23.7 million, respectively.

The Company may reissue these treasury shares as part of its stock-based compensation programs.

Non-controlling Interests

The Company 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 a 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 noncontrolling interests were estimated based on the values of Cinos Korea and Cinos China on a 100% basis. The values were calculated based on the pro-rata portion of total Services earnings before interest expense, taxes, depreciation and amortization contributed by each entity.

11. EMPLOYEE STOCK PLANS

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 and market conditions. The Company also grants common stock to its board members in the form of restricted stock awards ("RSAs"), which vest on the earlier of the next Annual Shareholder Meeting, or 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 is amortized on a straight-line basis over the awards' vesting period and is adjusted for 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 28, 2024	June 30, 2023	June 28, 2024	June 30, 2023
Cost of revenues (1)	$ 0.4	$ 0.3	$ 0.8	$ 0.6
Research and development	0.1	0.1	0.1	0.1
Sales and marketing	0.6	0.3	1.0	0.7
General and administrative	3.4	0.3	6.1	3.3
Total stock-based compensation	$ 4.5	$ 1.0	$ 8.0	$ 4.7

(1) Stock-based compensation expense capitalized in inventory for the three and six months ended June 28, 2024 and June 30, 2023 were immaterial.

For the three and six months ended June 28, 2024, 451 thousand and 475 thousand RSUs were granted with a weighted average fair value of $41.32 and $41.47 per share, respectively. For the three and six months ended June 30, 2023, 551 thousand and 553 thousand RSUs were granted with a weighted average fair value of $28.29 and $28.31 per share, respectively.

For the three and six months ended June 28, 2024, 125 thousand PSUs were granted and 145 thousand PSUs were granted for the three and six months ended June 30, 2023.

For the three and six months ended June 28, 2024, 26 thousand RSAs were granted and 37 thousand RSAs were granted for the three and six months ended June 30, 2023.

The following table summarizes the Company's combined RSU, PSU and RSA activity for the six months ended June 28, 2024:

(In millions)	Number of Shares	Aggregate Intrinsic Value
Outstanding at December 29, 2023	1.4	$ 46.1
Granted	0.6	
Vested	(0.4)	
Forfeited	(0.2)	
Outstanding at June 28, 2024	1.4	70.4
Expected to vest at June 28, 2024	1.4	$ 69.8

As of June 28, 2024, approximately $33.0 million of unrecognized stock-based compensation cost related to employee and director awards remains to be amortized on a straight-line basis over a weighted average period of 2.1 years, and will be adjusted for subsequent changes in future grants. The total unamortized expense of the Company's unvested RSAs as of June 28, 2024 was $1.1 million.

Under the current PSU program, performance goals are set at the time of grant and performance is reviewed at the end of a three-year period. The percentage to be applied to each participant's target award ranges from zero to 200%, based upon the extent to which the financial performance goals are achieved. If specific performance threshold levels for the financial goals are met on an annual basis, the amount earned for that element will be applied to one-third of the participant's PSU award granted to determine the number of total units earned.

Recipients of PSU awards generally must remain employed by the Company on a continuous basis through the end of the three-year performance period in order to receive any amount of the PSUs covered by that award. In events such as death, disability or retirement, the recipient may be entitled to pro-rata amounts of PSUs as defined in the Plan. Target shares subject to PSU awards do not have voting rights of common stock until earned and issued following the end of the three-year performance period.

Employee Stock Purchase Plan

The ESPP permits employees to purchase common stock at a discount through payroll withholdings at certain specified dates (purchase period) within a defined offering period. The purchase price is 85% of the fair market value of the common stock at the end of the purchase period and is intended to qualify as an "employee stock purchase plan" under Section 423 of the Internal Revenue Code.

During the three and six months ended June 28, 2024, 42 thousand shares were issued under the ESPP. The Company recorded $0.2 million and $0.3 million of expense related to ESPP for the three and six months ended June 28, 2024. No shares were issued under the ESPP during the three and six months ended June 30, 2023. The Company recorded $0.1 million of expense related to ESPP for the three and six months ended June 30, 2023.

12. REVENUE RECOGNITION

Revenue is recognized when the Company satisfies the performance obligations as evidenced by the transfer of control of the promised goods or services 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 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 business segment 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 the Company's locations throughout the Americas, Asia Pacific and Europe and the Middle East ("EMEA"). 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. 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 goods 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. Accruals for unpaid customer rebates of $1.2 million and $2.0 million as of June 28, 2024 and December 29, 2023, respectively, were netted against accounts receivable. The Company's disaggregated revenues are apportioned by segments within the Company's Condensed Consolidated Statement of Operations.

The Company's principal markets include America, Asia Pacific and EMEA. The Company's foreign operations are conducted primarily through its subsidiaries in China, Malaysia, Singapore, Israel, Taiwan, South Korea, United Kingdom

and the Czech Republic. Revenues by geographic area are categorized based on the customer's location to which the products were shipped or services were performed. The following table sets forth revenue by geographic area:

	Three Months Ended		Six Months Ended	
	June 28, 2024	June 30, 2023	June 28, 2024	June 30, 2023
Singapore	$ 168.9	$ 138.9	$ 326.1	$ 291.1
United States	146.2	134.1	287.1	267.9
China	59.6	30.9	114.5	54.1
Austria	45.2	31.3	82.8	61.8
South Korea	24.7	22.7	48.3	50.0
Taiwan	21.6	21.6	37.1	40.5
Others	49.9	42.0	98.0	89.4
Total	$ 516.1	$ 421.5	$ 993.9	$ 854.8

The Company's most significant customers (having individually 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 28, 2024	June 30, 2023	June 28, 2024	June 30, 2023
Lam Research Corporation	31.7 %	33.8 %	31.6 %	35.2 %
Applied Materials, Inc.	22.8	23.2	22.8	21.5
Total	54.5 %	57.0 %	54.4 %	56.7 %

Four customers' accounts receivable balances, Lam Research Corporation, ASML Holding NV, Advanced Micro-Fabrication Equipment Inc., and Applied Materials, Inc., were individually greater than 10% of accounts receivable as of June 28, 2024, in the aggregate approximately 42.5% of the Company's total accounts receivable.

Two customers' accounts receivable balances, Lam Research Corporation and Applied Materials, Inc., were individually greater than 10% of accounts receivable as of December 29, 2023, in the aggregate approximately 26.8% of total accounts receivable.

13. LEASES

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

There have been no material changes to the Company's operating lease commitments during the three months ended June 28, 2024.

In the six month period ended June 28, 2024, the Company commenced a 10-year lease of manufacturing space in Austin, Texas, with a single 7-year renewal option at lease end. Additionally, the Company's subsidiary in Czech Republic entered into 8-year lease of additional manufacturing and office space. As a result, $16.8 million additions were made at commencement date to the operating lease right-of-use assets and to the operating lease liabilities in the Company's Condensed Consolidated Balance Sheet.

14. NET INCOME (LOSS) 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		Six Months Ended	
	June 28, 2024	June 30, 2023	June 28, 2024	June 30, 2023
Numerator:				
Net income (loss) attributable to UCT	$ 19.1	$ (9.4)	$ 9.7	$ (12.8)
Denominator:				
Shares used in computation — basic:				
Weighted average common shares outstanding	44.9	44.7	44.7	44.8
Shares used in computation — diluted:				
Weighted average common shares outstanding	44.9	44.7	44.7	44.8
Effect of potential dilutive securities:				
Employee stock plans	0.5	—	0.6	—
Shares used in computing diluted net income (loss) per share	45.4	44.7	45.3	44.8
Net income (loss) per share attributable to UCT — basic	$ 0.43	$ (0.21)	$ 0.22	$ (0.29)
Net income (loss) per share attributable to UCT — diluted	$ 0.42	$ (0.21)	$ 0.21	$ (0.29)

15. REPORTABLE SEGMENTS

The Company prepares financial results based on three operating segments (Products, Services, and HIS) and two reportable segments (Products and Services). The Products and HIS operating segments have been aggregated into the Products reportable segment based upon consistency of economic characteristics, nature of products, similarity of production process, and class of customers. The Company's Chief Executive Officer (chief operating decision maker) views and evaluates operations based on the results of each of the operating segments. The following table describes each reportable segment:

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

(In millions)	Three Months Ended		Six Months Ended	
	June 28, 2024	June 30, 2023	June 28, 2024	June 30, 2023
Revenues:				
Products	$ 452.7	$ 362.5	$ 871.2	$ 731.1
Services	63.4	59.0	122.7	123.7
Total segment revenues	$ 516.1	$ 421.5	$ 993.9	$ 854.8
Gross margin:				
Products	$ 68.8	$ 51.4	$ 133.2	$ 104.9
Services	19.7	16.7	37.9	36.2
Total segment gross margin	$ 88.5	$ 68.1	$ 171.1	$ 141.1
Income from operations:				
Products	$ 18.8	$ 10.8	$ 33.5	$ 19.5
Services	4.1	1.8	6.7	5.5
Total segment income from operations	$ 22.9	$ 12.6	$ 40.2	$ 25.0

(In millions)	June 28, 2024	December 29, 2023
Assets		
Products	$ 1,659.6	$ 1,617.5
Services	267.7	250.2
Total segment assets	$ 1,927.3	$ 1,867.7

Long-lived assets comprised of operating lease right-of-use assets and property, plant and equipment, net, reported based on the location of the asset. The carrying amount of long-lived assets in United States, Malaysia, Israel, South Korea and other foreign countries were $177.5 million, $84.0 million, $75.4 million, $49.0 million and $101.9 million, respectively as of June 28, 2024, and $165.4 million, $84.3 million, $74.3 million, $54.3 million and $101.7 million, respectively as of December 29, 2023.

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

You should read the following discussion of our financial condition and results of operations in conjunction with the Condensed Consolidated Financial Statements and the notes thereto included elsewhere in this Quarterly Report on Form 10-Q and in our Annual Report on Form 10-K filed with the SEC on March 6, 2024. This Quarterly Report on Form 10-Q contains "forward-looking statements" that involve substantial risks and uncertainties. The statements contained in this Quarterly Report on Form 10-Q that are not purely historical are forward-looking statements within the meaning of Section 27A of the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, including, but not limited to, statements regarding our expectations, beliefs, intentions, strategies, future operations, future financial position, future revenue, projected expenses, gross margins and plans and objectives of management. In some cases, you can identify forward-looking statements by terms such as "anticipate," "believe," "estimate," "expect," "intend," "may," "might," "plan," "project," "will," "would," "should," "could," "can," "predict," "potential," "continue," "objective," or the negative of these terms, and similar expressions intended to identify forward-looking statements. However, not all forward-looking statements contain these identifying words. These forward-looking statements reflect our current views about future events and involve known risks, uncertainties and other factors that may cause our actual results, performance or achievement to be materially different from those expressed or implied by the forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those identified below, and those discussed in the section titled "Risk Factors" included in this Quarterly Report on Form 10-Q and in our Annual Report on Form 10-K filed with the SEC on March 6, 2024. 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, 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 report results for two segments: Products and Services. Our Products segment 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 segment 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 ship 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 Asia Pacific, Europe and Middle East ("EMEA") 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, such as new processor architectures that enable higher performance servers necessary for cloud, artificial intelligence ("AI") and machine learning applications. 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 business is benefiting as device manufacturers rely on precision cleaning and coating to achieve ever more advanced devices.

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 ongoing basis, we evaluate our estimates and judgments, including those related to inventories, income taxes, business combinations, contingent earn-out liabilities 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 revenue recognition, 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 29, 2023. 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 29, 2023, 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 2024 is a 52-week period ending December 27, 2024 and fiscal year 2023 was a 52-week ended December 29, 2023. The fiscal quarters ended June 28, 2024 and June 30, 2023 were both 13-week periods.

Discussion of Results of Operations for the Three and Six months ended June 28, 2024 compared to the Three and Six months ended June 30, 2023

Revenues

Revenues by Segment (Dollars in millions)	Three Months Ended			Six Months Ended		
	June 28, 2024	June 30, 2023	Percent Change	June 28, 2024	June 30, 2023	Percent Change
Products	$ 452.7	$ 362.5	24.9 %	$ 871.2	$ 731.1	19.2 %
Services	63.4	59.0	7.5 %	122.7	123.7	(0.8)%
Total revenues	$ 516.1	$ 421.5	22.4 %	$ 993.9	$ 854.8	16.3 %
Products as a percentage of total revenues	*87.7 %*	*86.0 %*		*87.7 %*	*85.5 %*	
Services as a percentage of total revenues	*12.3 %*	*14.0 %*		*12.3 %*	*14.5 %*	

For the three and six months ended June 28, 2024, Products revenues increased compared to the same periods in the prior year. The increase in Products revenues was primarily due to an increase in customer demand, along with an overall market improvement in the semiconductor industry and in part due to the acquisition of HIS in October 2023.

Services revenues increased $4.4 million from the three months ended June 30, 2023 to the three months ended June 28, 2024 primarily due to increase in demand across its customer base. Services revenues decreased $1.0 million from the six months ended June 30, 2023 to the six months ended June 28, 2024 primarily due to lower memory demand.

Revenues by Geography (Dollars in millions)	Three Months Ended			Six Months Ended		
	June 28, 2024	June 30, 2023	Percent Change	June 28, 2024	June 30, 2023	Percent Change
United States	$ 146.2	$ 134.1	9.0 %	$ 287.1	$ 267.9	7.2 %
International	369.9	287.4	28.7 %	706.8	586.9	20.4 %
Total revenues	$ 516.1	$ 421.5	22.4 %	$ 993.9	$ 854.8	16.3 %
United States as a percentage of total revenues	*28.3 %*	*31.8 %*		*28.9 %*	*31.3 %*	
International as a percentage of total revenues	*71.7 %*	*68.2 %*		*71.1 %*	*68.7 %*	

Revenues by geographic area are categorized based on the customer's location to which the products were shipped or services were performed.

For the three and six months ended June 28, 2024, U.S. revenues increased compared to the same periods in the prior year, primarily as the result of the October 2023 acquisition of HIS, whose customers are primarily U.S. based.

International revenues increased in the three and six months ended June 28, 2024 compared to the same periods in the prior year primarily as a result of market improvement driving higher customer demand.

Cost of Revenues

Cost of revenues by Segment (Dollars in millions)	Three Months Ended			Six Months Ended		
	June 28, 2024	June 30, 2023	Percent Change	June 28, 2024	June 30, 2023	Percent Change
Products	$ 383.9	$ 311.1	23.4 %	$ 738.0	$ 626.2	17.9 %
Services	43.7	42.3	3.3 %	84.8	87.5	(3.1)%
Total Cost of revenues	$ 427.6	$ 353.4	21.0 %	$ 822.8	$ 713.7	15.3 %
Products cost as a percentage of total Products revenues	*84.8 %*	*85.8 %*		*84.7 %*	*85.7 %*	
Services cost as a percentage of total Services revenues	*68.9 %*	*71.7 %*		*69.1 %*	*70.7 %*	

Cost of Products revenues consists of purchased materials, direct labor and manufacturing overhead. Cost of Products revenues increased $72.8 million and $111.8 million for the three and six months ended June 28, 2024 compared to the same periods in the prior year. The increase was due to higher sales volumes driving increased material costs of $63.6 million and $101.9 million for the three and six months ended June 28, 2024, respectively.

Cost of Services revenues consists of direct labor, overhead and materials (such as chemicals, gases and consumables). Cost of Services revenues increased $1.4 million for the three months ended June 28, 2024 compared to the same period in the prior year driven by higher volumes of service orders, resulting in increased overhead costs of $1.4 million. Cost of Services revenues decreased $2.7 million for the six months ended June 28, 2024 compared to the same period in the prior year driven by lower volumes of service orders resulting in decreased labor related costs of $3.7 million.

Gross Margin

Gross Profit by Segment (Dollars in millions)	Three Months Ended			Six Months Ended		
	June 28, 2024	June 30, 2023	Percent Change	June 28, 2024	June 30, 2023	Percent Change
Products	$ 68.8	$ 51.4	33.9 %	$ 133.2	$ 104.9	27.0 %
Services	19.7	16.7	18.0 %	37.9	36.2	4.7 %
Gross profit	$ 88.5	$ 68.1	30.0 %	$ 171.1	$ 141.1	21.3 %
Gross Margin by Segment						
Products	15.2 %	14.2 %		15.3 %	14.3 %	
Services	31.1 %	28.3 %		30.9 %	29.3 %	
Total Company	17.1 %	16.2 %		17.2 %	16.5 %	

Gross profit and gross margins fluctuate with revenue levels, product mix, material costs, and labor costs.

Products gross profit and gross margin increased for the three and six months ended June 28, 2024 compared to the same periods in the prior year primarily due to higher revenue levels, product shift and volume shift from higher to lower cost regions.

Services gross profit increased for the three and six months ended June 28, 2024 compared to the same periods in the prior year primarily due to higher revenue levels.

Operating Margin

Operating Profit by Segment (Dollars in millions)	Three Months Ended June 28, 2024	Three Months Ended June 30, 2023	Percent Change	Six Months Ended June 28, 2024	Six Months Ended June 30, 2023	Percent Change
Products	$ 18.8	$ 10.8	74.1 %	$ 33.5	$ 19.5	71.8 %
Services	4.1	1.8	127.8 %	6.7	5.5	21.8 %
Operating profit	$ 22.9	$ 12.6	81.7 %	$ 40.2	$ 25.0	60.8 %
Operating Margin by Segment						
Products	4.2 %	3.0 %		3.8 %	2.7 %	
Services	6.5 %	3.1 %		5.5 %	4.4 %	
Total Company	4.4 %	3.0 %		4.0 %	2.9 %	

Operating profit and operating margin of Products increased for the three and six months period ended June 28, 2024 compared to the same periods in the prior year primarily due to increases in business volumes and customer demand partially offset by an increase in share-based compensation expense and by an increase in the amortization of intangibles in conjunction with the acquisition of HIS.

Operating profit and operating margin of Services increased for the three and six months period ended June 28, 2024 compared to the same periods in the prior year primarily due to the higher gross profit resulting from increased customer demand.

Research and Development

(Dollars in millions)	Three Months Ended June 28, 2024	Three Months Ended June 30, 2023	Percent Change	Six Months Ended June 28, 2024	Six Months Ended June 30, 2023	Percent Change
Research and development	$ 7.1	$ 7.2	(1.4) %	$ 14.1	$ 14.3	(1.4) %
Research and development as a percentage of total revenues	1.4 %	1.7 %		1.4 %	1.7 %	

Research and development expenses were consistent in the three and six months ended June 28, 2024 compared to the same periods in the prior year.

Sales and Marketing

(Dollars in millions)	Three Months Ended June 28, 2024	Three Months Ended June 30, 2023	Percent Change	Six Months Ended June 28, 2024	Six Months Ended June 30, 2023	Percent Change
Sales and marketing	$ 14.8	$ 12.7	16.5 %	$ 28.5	$ 25.8	10.5 %
Sales and marketing as a percentage of total revenues	2.9 %	3.0 %		2.9 %	3.0 %	

Sales and marketing expenses increased for the three and six months period ended June 28, 2024 compared to the same periods in the prior year primarily due to the increase in employee related expenses.

General and Administrative

(Dollars in millions)	Three Months Ended June 28, 2024	Three Months Ended June 30, 2023	Percent Change	Six Months Ended June 28, 2024	Six Months Ended June 30, 2023	Percent Change
General and administrative	$ 43.7	$ 35.6	22.8 %	$ 88.3	$ 76.0	16.2 %
General and administrative as a percentage of total revenues	8.5 %	8.4 %		8.9 %	8.9 %	

General and administrative expenses increased $8.1 million and $12.3 million in the three and six months ended June 28, 2024 compared to the same periods in the prior year primarily driven by increases in amortization of intangible assets acquired through business combinations and in share-based compensation expense in addition to a combination of other factors, none of which were individually significant.

Interest and Other Expense, net

(Dollars in millions)	Three Months Ended			Six Months Ended		
	June 28, 2024	June 30, 2023	Percent Change	June 28, 2024	June 30, 2023	Percent Change
Interest income	$ 1.4	$ 0.8	75.0 %	$ 2.8	$ 1.3	115.4 %
Interest expense	$ (11.7)	$ (11.8)	(0.8) %	$ (23.9)	$ (23.6)	1.3 %
Other income (expense), net	$ 17.4	$ (1.5)	(1260.0) %	$ 13.5	$ 1.3	938.5 %

Interest income increased $0.6 million and $1.5 million in the three and six months ended June 28, 2024 compared to the same periods in the prior year primarily due to higher interest income earned on cash and cash equivalent balances attributed to higher interest rates in the current period.

Interest expense was consistent in the three and six months ended June 28, 2024 compared to the same periods in the prior year.

Other income (expense), net, increased $18.9 million in the three months ended June 28, 2024 compared to the same period in the prior year primarily due to the gain from the change in the fair value of contingent earn-out of $24.1 million offset partially by the $3.6 million of debt financing costs incurred in conjunction with the amended credit agreement. Other income (expense), net, increased $12.2 million in the six months ended June 28, 2024 compared to the same period in the prior year primarily due to the gain from the change in the fair value of contingent earn-out of $22.8 million offset partially by the $3.6 million of debt financing costs and by the $7.5 million unfavorable foreign exchange transactions and remeasurements.

Provision for Income Taxes

(Dollars in millions)	Three Months Ended			Six Months Ended		
	June 28, 2024	June 30, 2023	Percent Change	June 28, 2024	June 30, 2023	Percent Change
Provision for income taxes	$ 8.5	$ 8.3	2.4 %	$ 18.4	$ 11.8	55.9 %
Effective tax rate	28.3 %	8300.0 %		56.4 %	295.0 %	

The decrease in the effective tax rate for the three and six months ended June 28, 2024 compared to the same periods in the prior year is primarily attributable to 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 valuation allowances on deferred tax assets.

Company management continuously evaluates the need for a valuation allowance on its deferred tax assets and, as of June 28, 2024, concluded that a full valuation allowance on its U.S. federal, state and certain of its foreign 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 28, 2024	December 29, 2023	Increase
Total cash and cash equivalents	$ 319.5	$ 307.0	$ 12.5

The following table summarizes the Condensed Consolidated Statements of Cash Flow information:

(In millions)	Six Months Ended	
	June 28, 2024	June 30, 2023
Operating activities	$ 33.0	$ 64.4
Investing activities	(30.9)	(46.5)
Financing activities	12.5	(56.9)
Effects of exchange rate changes on cash and cash equivalents	(2.1)	1.0
Net increase (decrease) in cash and cash equivalents	$ 12.5	$ (38.0)

Our primary cash inflows and outflows were as follows:

- For the six months ended June 28, 2024, we generated cash from operating activities of $33.0 million compared to $64.4 million for the six months ended June 30, 2023. The $31.4 million decrease in net cash provided by operating activities was driven by a $43.3 million unfavorable change in net working capital and by a $10.1 million decrease in non-cash items included in net income offset in part by an increase in net income of $22.0 million.
- The major contributors in net changes in operating assets and liabilities for the six months ended June 28, 2024 were as follows:
  - Accounts receivable increased $26.1 million primarily due to the timing of shipments and collections and $25.4 million increase in inventories due to increased production levels.
  - Accounts payable increased $41.4 million, income taxes payable increased $1.4 million, and accrued compensation and related benefits increased $1.5 million, primarily due to the timing of payments.
- Net cash used in investing activities during the six months ended June 28, 2024 and June 30, 2023 consisted primarily of $31.0 million and $47.0 million purchases of property, plant and equipment, respectively.
- During the six months ended June 28, 2024, the cash provided in financing activities was $12.5 million compared to cash used in financing activities of $56.9 million in the six months ended June 30, 2023. The $69.4 million increase in net cash provided by financing activities is due to the $23.5 million net cash proceeds from the amended credit agreement, a decrease of $23.8 million in principal payments on bank borrowings, and a $23.7 million decrease in share repurchases offset partially by the additional $2.5 million payment of debt issuance costs.

We believe we have sufficient capital to fund our working capital needs, satisfy our debt obligations, maintain our existing capital equipment, purchase new capital equipment and make strategic acquisitions from time to time. As of June 28, 2024, we had cash and cash equivalents of $319.5 million compared to $307.0 million as of December 29, 2023. 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 28, 2024.

Fluid Solutions has an existing factoring arrangement with a financial institution in which a portion of its accounts receivable are sold on a non-recourse basis. As of June 28, 2024, Fluid Solutions factored $6.9 million under this arrangement.

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 financing. 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 financing. 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.

As of June 28, 2024, we have cash of approximately $244.0 million in our foreign subsidiaries. It is not practicable to determine the tax liability that might be incurred if the undistributed earnings of these foreign subsidiaries were to be distributed. For undistributed earnings of foreign subsidiaries which are not considered indefinitely reinvested, deferred taxes have been accrued.

Borrowing Arrangements

The following table summarizes our borrowings:

(Dollars in millions)	June 28, 2024 Amount	Weighted-Average Interest Rate
U.S. Term Loan	$ 496.9	9.0 %
Fluid Solutions Debt Facilities	6.0	7.7 %
Debt issuance costs	(8.3)	
	$ 494.6	

At June 28, 2024, the Company had an outstanding amount under the Term Loan of $496.9 million, gross of unamortized debt issuance costs of $8.3 million. As of June 28, 2024, the interest rate on the outstanding Term Loan was 9.0%.

As of June 28, 2024, the Company had $146.1 million, net of $3.9 million of outstanding letters of credit, available under this revolving credit facility. As of June 28, 2024, the Company was in compliance with the financial covenants contained within the Amended Credit Agreement.

The Company 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 7.0 million euros (approximately 7.5 million). As of June 28, 2024, no debt was outstanding under this revolving credit facility.

Fluid Solutions has credit facilities with various financial institutions in Israel that provides borrowings of up to $11.0 million. As of June 28, 2024, Fluid Solutions had $6.0 million of outstanding debt with average interest rate ranges from 7.5% to 7.8%.

As of June 28, 2024, the Company's total bank debt was $494.6 million, net of unamortized debt issuance costs of $8.3 million. As of June 28, 2024, the Company had $146.1 million, $5.0 million and $7.5 million available to draw from our credit facilities in the U.S., Israel and Czech Republic, respectively.

See Note 6 - Borrowing Arrangements, of our Condensed Consolidated Financial Statements, included in Part 1 of this Form-10Q for additional information.

Capital Expenditures

Capital expenditures were $31.0 million during the six months ended June 28, 2024 and were primarily attributable to the capital invested in our manufacturing facilities worldwide. The Company's anticipated capital expenditures for the remainder of 2024 are expected to be financed primarily from our cash flow generated from operations and cash on hand.

Contractual Obligations

The Company had commitments to various third parties to purchase inventories totaling approximately $497.8 million as of June 28, 2024.

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 28, 2024, 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.

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 29, 2023, 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 chief executive officer and chief financial officer, we conducted an evaluation of our disclosure controls and procedures, as such term is defined in Rule 13a-15(e) under the Exchange Act. Disclosure controls and procedures are designed to ensure that information required to be disclosed by us in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms and that such information is accumulated and communicated to management, including the chief executive officer and chief financial officer, as appropriate, to allow timely decisions regarding required disclosure. Based upon this evaluation, our chief executive officer and our chief financial officer concluded the disclosure controls and procedures were not effective as of June 28, 2024, the end of the period covered by this Quarterly Report on Form 10-Q, due to material weaknesses in internal control over financial reporting described below.

Material Weaknesses in Internal Control Over Financial Reporting

As previously disclosed in our Annual Report on Form 10-K for the fiscal year ended December 29, 2023, the Company identified the following material weaknesses in our internal control over financial reporting that continue to exist as of June 28, 2024.

The Company did not design and maintain effective controls relating to the: (i) sufficiency of processes related to identifying and analyzing risks to the achievement of objectives across the entity, (ii) sufficiency of competent personnel to analyze risks of material misstatement and develop internal control activities to support the achievement of the Company’s internal control objectives; and (iii) monitoring of performance of control activities in accordance with established policies in a timely manner.

These material weaknesses contributed to the following additional material weaknesses:

(a) The Company did not design and maintain effective information technology (“IT”) general controls for certain information systems that are relevant to the preparation of its consolidated financial statements. Specifically, for certain of the Fluid Solutions operating subsidiaries in the Products segment which have not been migrated to the Company’s primary ERP system, the Company did not design and maintain (a) program change management controls to ensure that IT program and data changes affecting financial IT applications and underlying accounting records are identified, tested, authorized and implemented appropriately, and (b) user access controls to ensure appropriate segregation of duties that adequately restrict user and privileged access to our financial applications and data to appropriate company personnel. Business process controls that are dependent on information and data produced by systems affected by the deficiencies in IT general controls were deemed ineffective because they could have been adversely impacted.

(b) The Company did not design and maintain effective application controls over certain information technology systems that are relevant to the preparation of its consolidated financial statements. Specifically, for certain other international operating subsidiaries in the Products segment which have not been migrated to the Company’s primary ERP system, the Company did not design and maintain effective IT application controls or business process controls including, but not limited to appropriate segregation of duties. The business process controls were deemed ineffective because they could have allowed for certain personnel to have incompatible duties allowing for the creation, review, and processing of certain transactions without independent review and authorization which affects substantially all financial statement account balances and disclosures within such subsidiaries;

(c) The Company did not design and maintain effective controls to determine the valuation of inventories, including the write down of inventory to its estimated market value less costs to sell and the validation and approval of inventory costing;

(d) The Company did not design effective controls necessary to validate the accuracy of certain data used within the operation of controls which affects substantially all financial statement account balances and disclosures; and

(e) The Company did not design and maintain effective controls related to the review of cash flow forecasts used in the valuation of certain assets and liabilities acquired in a business combination. Specifically, the control activities related to

the review of the inputs and assumptions utilized to develop the cash flow forecasts used in the valuation of acquired intangible assets and contingent earn-out liabilities were not designed at an appropriate level of precision.

The material weaknesses described above did not result in any changes to previously released annual or interim financial results. However, these material weaknesses could result in misstatements of our consolidated financial statements that would result in a material misstatement to the annual or interim consolidated financial statements that would not be prevented or detected. Based on additional procedures and post-closing review, management concluded that the condensed consolidated financial statements included in this Quarterly Report on Form 10-Q present fairly, in all material respects, our financial position, results of operations, and cash flows for the periods presented, in conformity with accounting principles generally accepted in the United States.

Remediation Plan

Management has been executing and remains committed to implementing measures designed to ensure that control deficiencies contributing to the material weaknesses are remediated, such that these controls are designed, implemented, and operating effectively. The following remediation actions are currently being implemented and are in progress:

- engaging an external advisor to assist with evaluating and documenting the design and operating effectiveness of internal controls and assist with the remediation of deficiencies, as necessary;
- hiring additional personnel to identify and analyze risks of material misstatement, develop internal control activities to support the achievement of the Company's internal control objectives, and monitor the effective performance of those control objectives;
- designing and implementing effective controls for certain operating subsidiaries not yet migrated to our primary ERP system, including controls over program changes and user access including segregation of duties;
- designing and implementing effective controls over valuation of inventories and inventories costing;
- designing and implementing effective controls over data used within the operation of controls; and
- designing and implementing effective controls over the review of cash flow forecasts utilized in the valuation of acquired intangible assets and contingent earn-out liabilities in a business combination to ensure the accuracy of inputs and assumptions applied in the forecasting process.

As we continue to evaluate and work to improve our internal control over financial reporting, we may decide to take additional measures to address the material weaknesses or modify the remediation plans described above. We believe that these actions will remediate the material weaknesses, however the material weaknesses will not be considered remediated until the applicable controls have operated for a sufficient period of time, and management has concluded, through testing, that these controls are designed and operating effectively. While Management believes that the aforementioned plans will remediate the material weaknesses, there is no assurance on the exact timing of the completion of the remediation. As the remediation plans continue to be implemented, management may be required to take additional measures or modify the plan elements.

Changes in Internal Control Over Financial Reporting

There were no changes in internal control over financial reporting during the fiscal second quarter ended June 28, 2024, 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.

On June 7, 2024, UCT received a subpoena from the SEC related to the material weaknesses identified in our 2022 and 2023 Forms 10-K and the change of our independent auditors. UCT is fully cooperating with the SEC investigation. We cannot predict the duration, scope, or outcome of this matter at this time. UCT does not intend to make any additional comments regarding this matter unless and until there are material developments.

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 29, 2023.

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

(a) Recent Sales of Unregistered Securities

None.

(b) Use of Proceeds from Securities

None.

(c) Purchases of Equity Securities by the Issuer and Affiliated Purchasers

On October 20, 2022, the Board of Directors approved a share repurchase program authorizing the Company to purchase up to an aggregate of $150.0 million of the Company’s common stock over a three-year period. This program may be suspended or discontinued at any time and does not obligate the Company to acquire any amount of common stock.

No shares were repurchased under this program for the three and six months ended June 28, 2024.

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 28, 2024:

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: July 26, 2024

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

Date: July 26, 2024

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: July 26, 2024

/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: July 26, 2024

/s/ SHERI SAVAGE

Sheri Savage
Chief Financial Officer

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: July 26, 2024

/s/ JAMES P. SCHOLHAMER

James P. Scholhamer
Chief Executive Officer

Date: July 26, 2024

/s/ SHERI SAVAGE

Sheri Savage
Chief Financial Officer