COMPUGEN LTD
Form 6-K
June 21, 2007

FORM 6-K

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Report of Foreign Private Issuer

Pursuant to rule 13a-16 or 15d-16 of the Securities Exchange Act of 1934

for the month of June 2007

Compugen Ltd.

(Translation of registrant's name in English)

72 Pinchas Rosen Street, Tel-Aviv 69512, Israel

(Address of principal executive offices)

Indicate by check mark whether the registrant files or will file annual reports under cover Form 20-F or Form 40-F.

Form 20-F _X_ Form 40-F ___

On June 21, 2007 Compugen Ltd. (the "Registrant") issued a Press Release, filed as Exhibit 1 to this Report on Form 6-K, which is hereby incorporated by reference herein.

SIGNATURE

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.

Compugen Ltd.

(Registrant)

By: /s/ Ronit Lerner

Title: Chief Financial Officer

Date: June 21, 2007

__1__

Exhibit 1

Compugen Ltd.

NOTICE OF ANNUAL GENERAL MEETING OF SHAREHOLDERS

To be held on Tuesday, July 31th, 2007

Notice is hereby given that the Annual General Meeting (the "**Meeting**") of the shareholders of Compugen Ltd. (the "**Company**"), an Israeli company, will be held at the Company`s offices at 72 Pinchas Rosen Street, Tel Aviv, Israel, on July 31, 2007 at 10:00 AM (Israel time) for the following purposes:

1. To elect seven members to the Board of Directors of the Company out of which Prof. Yair Aharonowitz, Dr. Arie Ovadia and Prof. Joshua Shemer will be elected as external directors of the Company pursuant to the Israeli Companies Law - 1999 (the "Companies Law").

2. To approve the compensation terms of non-management directors of the Company.

3. To approve the issuance of stock options to the Chairman of our Board of Directors, Mr. Martin Gerstel.

4. To approve certain compensation of our Chief Executive Officer and director, Mr. Alex Kotzer.

5. To amend our Articles of Association by adopting Amended and Restated Articles in accordance with changes made to the Companies Law and its regulations.

6. To extend the term during which non-management directors may exercise vested options after the term of their service.

7. To approve the indemnification and exculpation of directors.

8. To appoint the Company`s independent public accountants and to authorize the Company`s audit committee to determine their remuneration.

9. To transact such other business as may properly come before the Meeting.

Shareholders of record at the close of business on June 22, 2007, are entitled to notice of, and to vote at the Meeting. All shareholders are cordially invited to attend the Meeting in person.

Shareholders who do not expect to attend the Meeting in person are requested to mark, date, sign and mail the enclosed proxy as promptly as possible in the enclosed stamped envelope. Beneficial owners who hold their shares through members of the Tel Aviv Stock Exchange ("**TASE**") may either vote their shares in person at the Meeting by presenting a certificate signed by a member of

the TASE which complies with the Israel Companies Regulations (Proof of Ownership for Voting in General Meetings)-2000 as proof of ownership of the shares, or send such certificate along with a duly executed proxy to the Company at 72 Pinchas Rosen Street, Tel Aviv 69512, Israel, Attention: General Counsel.

By Order of the Board of Directors,

Martin Gerstel

Chairman of the Board

Tel Aviv, Israel

June 13, 2007

PROXY STATEMENT

COMPUGEN LTD.

72 Pinchas Rosen Street

Tel Aviv 69512, Israel

ANNUAL GENERAL MEETING OF SHAREHOLDERS

To Be Held on July 31, 2007

The enclosed proxy is being solicited by the board of directors (the "**Board of Directors**") of Compugen Ltd. (the "**Company**" or "**Compugen**") for use at the 2007 Annual General Meeting of Shareholders (the "**Meeting**") to be held on July 31, 2007, or at any postponement or adjournment thereof. The record date for determining shareholders entitled to notice of and to vote at the Meeting is established as of the close of business on June 22, 2007.

As of May 31, 2007, we had outstanding 28,162,202 of our ordinary shares, nominal value New Israeli Shekels ("**NIS**") 0.01 (the "**Ordinary Shares**").

We expect to solicit proxies by mail and to mail this proxy statement and the accompanying proxy card to shareholders on or about June 27, 2007. We will bear the cost of the preparation and mailing of these proxy materials and the solicitation of proxies. We will, upon request, reimburse banks, brokerage houses, other institutions, nominees, and fiduciaries for their reasonable expenses in forwarding solicitation materials to beneficial owners.

Upon the receipt of a properly executed proxy in the form enclosed, the persons named as proxies therein will vote the Ordinary Shares covered thereby in accordance with the instructions of the shareholder executing the proxy. With respect to the proposals set forth in the accompanying Notice of Meeting, a shareholder may vote in favor of or against any of the proposals or may abstain from voting on any of the proposals. Shareholders should specify their choices on the accompanying proxy card. If no specific instructions are given with respect to the matters to be acted upon, the shares represented by a signed proxy will be voted FOR the proposals set forth in the accompanying Notice of Meeting. We are not currently aware of any other matters to be presented at the Meeting.

Any shareholder returning the accompanying proxy may revoke such proxy at any time prior to its exercise by: (i) giving written notice to us of such revocation; (ii) voting in person at the Meeting or requesting the return of the proxy at the Meeting; or (iii) executing and delivering to us a later-dated proxy. Written revocations and later-dated proxies should be sent to the Company at 72 Pinchas Rosen Street, Tel Aviv 69512, Israel, Attention: General Counsel.

Each Ordinary Share is entitled to one vote on each matter to be voted on at the Meeting. Subject to the terms of applicable law, two or more shareholders present, personally or by proxy, who hold or represent together at least 33.33% of the voting rights of our issued share capital will constitute a quorum for the Meeting. If within half an hour from the time scheduled for the Meeting a quorum is not present, the Meeting shall stand adjourned for one week, to August 7, 2007, at the same hour and place, without it being necessary to notify the shareholders. If a quorum is not present at the adjourned date of the Meeting within half an hour of the time scheduled for the commencement thereof, subject to the terms of applicable law, the persons present shall constitute a quorum.

Each of Proposals 1, 2, 3, 4, 5, 6, 7, and 8 to be presented at the Meeting requires the affirmative vote of shareholders present in person or by proxy and holding Ordinary Shares amounting in the aggregate to at least a majority of the votes actually cast with respect to each such proposal. However, Proposal 1, as it relates to the appointment of Prof. Yair Aharonowitz, Dr. Arie Ovadia and Prof. Joshua Shemer as external directors pursuant to the Companies Law, requires both (a) the affirmative vote of shareholders present in person or by proxy and holding Ordinary Shares amounting in the aggregate to at least a majority of the votes actually cast with respect to such proposal, and (b) either: (i) said majority include at least one-third of the voting power of the non-controlling shareholders who are present in person or by proxy and who vote on such proposal; or (ii) the total votes cast in opposition to the proposal by the non-controlling shareholders does not exceed 1% of all the voting power in the Company.

PRINCIPAL SHAREHOLDERS

The following table and notes thereto set forth information, as of April 16, 2007, concerning the beneficial ownership (as defined in Rule 13d-3 under the Securities Exchange Act of 1934, as amended), and on a diluted basis, of Ordinary Shares by any person who is known to own at least 5% of our Ordinary Shares. On such date, 28,162,202 Ordinary Shares were issued and outstanding. The voting rights of our major shareholders do not differ from the voting rights of other holders of our Ordinary Shares.

Beneficial Owner	Number of Ordinary Shares Beneficially Owned	Percent of Ownership
AXA Assurances I.A.R.D. Mutuelle (1)	4,650,957	17.3%
Clal Biotechnology Industries Ltd (2)	3,056,274	10.85%
Martin S. Gerstel (3)	1,702,568	6.05%

(1) This disclosure is based on information disclosed by AXA Assurances I.A.R.D. Mutuelle on Form 13G, field with the SEC on February 13, 2007.

(2) Includes 10,526 shares held by Clal Industries & Investments Ltd. and 3,045,748 shares held by Clal Biotechnology Industries Ltd. Clal Biotechnology Industries Ltd.`s address is 3 Azrieli Center, Tel Aviv, 67023, Israel. This disclosure is based on information disclosed by Clal Biotechnology Industries Ltd. in its prospectus for listing on the Tel Aviv stock exchange dated May 21, 2007.

(3) Includes 550,000 shares held by Shomar Corporation, an affiliate of Mr. Gerstel, and 618,333 shares held by Merrill Lynch IRA for Martin Gerstel, of which Martin Gerstel is the beneficiary. Based on information disclosed by Mr. Martin Gerstel on Form 13G, filed with the SEC on May 7, 2007.

MATTERS RELATING TO THE 2007 ANNUAL GENERAL MEETING

At the Meeting, the shareholders will be asked to vote on the following proposals:

__5__

PROPOSAL NO. 1

ELECTION OF DIRECTORS

Our Board of Directors will be comprised of seven (7) members, four (4) of whom are elected to the Board of Directors until our next annual meeting, and three (3) of whom are elected to be external directors pursuant to the Companies Law, and, if elected, shall serve for a fixed term of three (3) years pursuant to the Companies Law.

Each of the nominees has consented to being named in this Proxy Statement and the Company is not aware of any reason why such person will not serve as a director (or an external director, as applicable) if elected. However, Dr. Fortuna will only begin his active service as a board member upon his retirement from his current position with Teva Pharmaceutical Industries Ltd. ("Teva") or at such earlier time as Teva may permit and until such time, Dr. Fortuna shall not participate in any board or committee meetings whatsoever. Information on each nominee for director is set forth below. The information is based upon the records of the Company and information provided by each nominee. If at the time of the Meeting, however, any of the below-named nominees should be unable or decline to serve as a director, the persons named as proxies herein will vote for such substitute nominee or nominees as the Board of Directors recommends, or will vote to allow the vacancy created thereby to remain open until filled by the Board of Directors.

Set forth below are the names of, and certain other information concerning, the nominees for election as directors and external directors at the Meeting:

Name	Age	Position with the Company	Served as Director Since
Prof. Yair Aharonowitz	67	External Director Nominee	- - - -
Prof. Ruth Arnon	73	Director	May 2007
Dr. Gilead Fortuna	65	Director	May 2007
Martin S. Gerstel	65	Director and Chairman of the Board	August 1997
Alex Kotzer	61	Director and Chief Executive Officer	September 2005
Dr. Arie Ovadia	67	External Director Nominee	- - - -
Prof. Joshua Shemer	59	External Director Nominee	- - - -

Yair Aharonowitz, Ph.D., age 66, is a Professor of Microbiology and Biotechnology at Tel Aviv University (TAU). He was a visiting scientist at Oxford University, an Alberta Heritage Fellow at the University of Alberta, Edmonton, and a visiting professor at the Karolinska Institute and at the University of British Columbia. Professor Aharonowitz`s research interests include the molecular genetics and biosynthesis of antibiotics, molecular biology of microbial pathogens and the development of new targets for new antibiotics. He served as TAU Vice President and Dean for R&D, Chairman of the Department of Microbiology and Biotechnology and Chairman of the Institute of Biotechnology. He is a member of the TAU Executive Council and of the TAU Board of Governors. He served as the Chairman of Ramot Fund for Applied Research, as a member of TAU committee for strategic planning, on the TAU patent committee; he was a member of the

__6__

National Committee for Biotechnology and served as a member of the Israel Prize committee (life sciences). He is a Fellow of the American Academy of Microbiology and a member of the Israeli Society of Microbiology.

Prof. Ruth Arnon, age 73, formerly Vice-President of the Weizmann Institute of Science (1988-1997), is a noted immunologist, having joined the Institute in 1960. She served as Head of the Department of Chemical Immunology, Dean of the Faculty of Biology and Director of the Institute's MacArthur Center for Molecular Biology of Tropical Diseases. Prof. Arnon has made significant contributions to the fields of vaccine development, cancer research and to the study of parasitic diseases. Along with Prof. Michael Sela, she developed Copaxone® a drug for the treatment of multiple sclerosis which is presently marketed worldwide. Prof. Arnon is a member of the Israel Academy of Sciences and presently chairs its Science Division. She is an elected member of the European Molecular Biology Organization, served as President of the European Federation of Immunological Societies and as Secretary-General of the International Union of Immunological Societies. Her awards include the Robert Koch Prize in Medical Sciences, Spain's Jiminez Diaz Memorial Prize, France's Legion of Honor, the Hadassah World Organization's Women of Distinction Award, the Wolf Prize for Medicine, the Rothschild Prize for Biology, the Israel Prize and she received an Honorary Doctorate from Ben-Gurion University. Prof. Arnon is the Advisor for Science to the President of Israel and the incumbent of the Paul Ehrlich Chair in Immunochemistry.

Dr. Gilead Fortuna, age 65, has been a Vice President at Teva Pharmaceutical Industries Ltd. since 2001. He was a member of the Israel Chemicals Management team, was President & CEO of IMI, President and CEO of Fertilizers and Chemicals and CTO of Israel Chemicals. He was Vice President of Rafael for Marketing and Business Development and Vice President of Rafael for Operations. He is currently the Chairman of Novetide, a Teva/IMI of Israel Chemicals JV, of Teva Beijing and serves on other Teva subsidiaries` boards. Dr. Fortuna currently serves on, among others, committees for Strategy and Policy Development in the Chief Scientist office, Ministry of Defense, Israeli Industrial Association and served as a director of the major Israel Chemicals subsidiaries in the 1990's. Dr. Fortuna has a Ph.D in Chemical Engineering from the University of Illinois and MSc and a B.Sc (summa cum Laude) from the Technion, Israel Institute of Technology. He also attended the Advanced Management Program (AMP) at the Harvard Business School.

Martin S. Gerstel, age 65, has served as our chairman since August 1997. Prior to 1994, Mr. Gerstel was co-chairman and CEO of ALZA Corporation, which he helped found in 1968. Mr. Gerstel is also the Chairman of Evogene Ltd. and Keddem Bioscience Ltd., co-founder and co-chairman of Itamar Medical, and serves as a director of Yissum Ltd., Yeda Ltd. and the Foundation for the US Foundation for the National Medals of Science and Technology. He is a member of the Board of Governors and the Executive Committee of the Weizmann Institute of Science and the Board of Governors of The Hebrew University of Jerusalem, and is an advisor to the Burrill Life Science Funds and the board of the Israel-US Bi-national Industrial Research and Development (BIRD) Foundation. Mr. Gerstel holds a B.S. from Yale University and an MBA from Stanford University.

Alex Kotzer, age 61, joined Compugen in September 2005 as President and Chief Executive Officer and a director. Mr. Kotzer brings with him over thirty years of senior managerial experience in various industries. Prior to joining Compugen, he served for twelve years at Serono (virt-x: SEO and NYSE: SRA), a global biotechnology leader, headquartered in Switzerland. During his tenure at Serono, Mr. Kotzer held several senior positions, most recently as Vice President of Biotechnology Manufacturing. Previously, Mr. Kotzer was President and Chief Executive Officer of InterPharm, Serono's Israeli affiliate. Before joining Serono, he held a variety

of managerial positions in the food and chemical industries. Mr. Kotzer received his B.Sc. in Chemical Engineering from the Technion, Israel Institute of Technology, of Haifa, Israel.

Dr. Arie Ovadia, age 67, advises major Israeli companies on finance, accounting and valuations, and is a member of the board of directors of several corporations, including Israel Discount Bank, Phoenix Insurance Company, Elite Industries, Israel Petrochemical Industries, ViryaNet and Tadiran Communications. He has taught at New York University (New York, NY), Temple University (Philadelphia, PA) and, in Israel, at Tel Aviv and Bradford Universities. Dr. Ovadia serves as a member of the Israeli Accounting Board, and is a 14-year member of the Israeli Security Authority. Dr. Ovadia holds an undergraduate degree and an MBA from Tel Aviv University, and earned his PhD in economics from the Wharton School at the University of Pennsylvania.

Prof. Joshua Shemer, age 59, is Full Professor of Medicine at the Tel Aviv University and is currently the CEO of Steba Biotech N.V. In addition he is a member of the Board of Directors of Maccabi Healthcare Services and Chairman of Assuta Medical Centers. Prof. Shemer is an Associate Editor at IMAJ and Harefuah, and a member of the Editorial Board of the International Journal of Technology Assessment in Health Care. He is Director of the Executive Masters Program in Health Sciences at the Multi-disciplinary Program for Emergency & Disaster Management and teaches Medical Technology Management at the Faculty of Business Administration at Tel Aviv University. He was a member and former chairman of the National Public Committee for Updating the National List of Health Services in Israel and the National Council for Trauma of the Israeli Ministry of Health. Most recently, Prof. Shemer was the Director-General of Maccabi Healthcare Services. Prof. Shemer was formerly Director-General of the Ministry of Health and Surgeon General of the Israel Defense Forces Medical Corps. He is a graduate of the Hebrew University and Hadassah School of Medicine and Board certified in Internal Medicine in Israel.

External Directors

The Companies Law requires Israeli companies with shares that have been offered to the public in or outside of Israel to appoint no less than two external directors. No person may be appointed as an external director if the person or the person`s relative, partner, employer or any entity under the person`s control, has or had, on or within the two years preceding the date of the person`s appointment to serve as external director, any affiliation with the company or any entity controlling, controlled by or under common control with the company. The term "affiliation" includes:

- an employment relationship;
- a business or professional relationship maintained on a regular basis;
- control; and
- service as an office holder.

A person shall be qualified to serve as an external director only if he or she possesses accounting and financial expertise or professional qualifications. The conditions and criteria for possessing accounting and financial expertise or professional qualifications were recently enacted in regulations promulgated under the Companies Law (Companies Law Regulations (Conditions and Tests for Determining whether a Director has Expertise in Finance and Accounting

and whether a Director is Professionally Qualified) - 2005 (the "External Director Qualification Regulations")).

No person may serve as an external director if the person`s position or other business activities create, or may create a conflict of interest with the person`s responsibilities as an external director or may otherwise interfere with the person`s ability to serve as an external director. If, at the time external directors are to be appointed, all current members of the board of directors are of the same gender, then at least one external director must be of the other gender.

The initial term of an external director is three years and may be extended for one additional three-year period. External directors may be removed only by the same percentage of shareholders as is required for their election, or by a court, and then only if the external directors cease to meet the statutory qualifications for their appointment or if they violate their duty of loyalty to the company.

The Company`s Board of Directors has recommended Prof. Yair Aharonowitz, Dr. Arie Ovadia and Prof. Joshua Shemer for election as external directors to fill the vacancies created by the expiration of the terms of Dr. Orna Berry and Mr. David Schlachet, to each serve for a period of three years and until their respective successors are duly elected and shall qualify.

The Board of Directors has determined that each of Prof. Yair Aharonowitz, Mr. Arie Ovadia and Prof. Joshua Shemer qualify as an independent director under regulations promulgated by Nasdaq.

The Board of Directors will present the following resolution at the Meeting:

"**RESOLVED** that Mr. Martin Gerstel, Mr. Alex Kotzer, Prof. Ruth Arnon and Dr. Gilead Fortuna are hereby elected to serve as members of the Board of Directors of the Company until the next annual meeting of shareholders or until their respective successors are duly elected and qualified and that each of Prof. Yair Aharonowitz, Dr. Arie Ovadia, and Prof. Joshua Shemer are hereby elected to serve as external directors of the Company pursuant to the Companies Law, for a three-year term and until their respective successors are duly elected and shall qualify."

The election of all director nominees requires the affirmative vote of shareholders present in person or by proxy and holding Ordinary Shares amounting in the aggregate to at least a majority of the votes actually cast with respect to such proposal and, in addition, the election of Prof. Yair Aharonowitz, Dr. Arie Ovadia and Prof. Joshua Shemer as external directors requires that either: (i) said majority include at least one-third of the voting power of the non-controlling shareholders who are present in person or by proxy and who vote on such proposal; or (ii) the total votes cast in opposition to the proposal by the non-controlling shareholders does not exceed 1% of all the voting power in the Company.

The Board of Directors recommends that the shareholders vote "FOR" the election of each of Mr. Martin Gerstel, Mr. Alex Kotzer, Prof. Ruth Arnon and Dr. Gilead Fortuna as directors of the Company and each of

Prof. Yair Aharonowitz, Dr. Arie Ovadia and Prof. Joshua Shemer as external directors of the Company.

PROPOSAL NO. 2

APPROVAL OF THE COMPENSATION TERMS OF NON-MANAGEMENT DIRECTORS

The Company's success depends to a significant extent on the participation of its non-management directors in meetings of the Board of Directors and its committees. In recognition of the importance of such participation, the Board of Directors and the Audit Committees have approved and recommended, subject to the approval of the shareholders of the Company, that all non-management directors of the Company, serving as of the date of the Annual Meeting or as of any future date, shall receive the following compensation:

Cash Compensation:

The Company shall pay cash compensation to the non-management directors in the form of a yearly retainer of $10,000 USD as consideration for their participation as members of the board of directors. Non-management members of the board who serve on one or more committees will receive an additional yearly retainer of $5,000 USD. In addition, a "per meeting day" fee of $1,000 USD will be provided to each non-management director as compensation for their participation in board and/or committee meetings on a given day, provided that if such participation is both by telephone and less than 4 hours in total, then such "per meeting day" fee shall be $500 USD.

Grant of Options:

Each non-management director shall be granted options (each, an "Option" and collectively, the "Options") to purchase Ordinary Shares pursuant to the following terms:

(i) an initial grant to purchase 40,000 Ordinary Shares shall be granted to each non-management director on the following terms:

(a) if approved, the Options are to be granted as of the date of the shareholders` approval;

(b) each Option shall be exercisable for one Ordinary Share at an exercise price equal to the closing price on the date of such grant as reported by The Nasdaq Capital Market;

(c) the Options shall vest as follows: (1) 10,000 Options shall be fully vested at time of grant; (2) 10,000 Options shall vest annually for a period of three years, starting from the first anniversary of the initial grant date; and

(d) any and all other terms and conditions pertaining to the grant of the Options shall be in accordance with, and subject to, the "Compugen Share Option Plan (2000)" and the Company's standard option agreement that shall be executed by each director and by the Company promptly after the date of the annual meeting of shareholders;

(ii) On each annual anniversary of the initial grant, an additional annual grant of Options to purchase 10,000 Ordinary Shares to each non-management director then serving on the board of directors, with the following terms:

(a) each Option shall be exercisable for one Ordinary Share at an exercise price equal to the closing price on the date of such additional grant, as reported by The Nasdaq Capital Market;

(b) the Options shall vest as follows: 3,333 of the Options shall vest on each of the first two anniversary dates of such grant and 3,334 on the third anniversary date; and

(c) any and all other terms and conditions pertaining to the grant of the Options shall be in accordance with, and subject to, the "Compugen Share Option Plan (2000)" and the Company's standard option agreement that shall be executed by each director and by the Company promptly after the date of the annual meeting of shareholders.

Notwithstanding (i) and (ii) above, all Options granted to non-management directors shall be fully vested immediately upon the completion of one or more of the following events, whether by way of a consolidation, merger or reorganization of the Company or otherwise: (a) a sale of all or substantially all of Company`s issued share capital or assets to any other company, entity, person or a group of persons, or (b) the acquisition of more than 50% of Company`s equity or voting power by any shareholder or group of shareholders.

Notwithstanding the terms of the "Compugen Share Option Plan (2000)" all Options granted above which shall be vested as of the date of termination of services by a non-management director to the Company, may be exercised within one year after the cessation of his or her term as a director of the Company.

The Board of Directors will present the following resolution at the Meeting:

"**RESOLVED** to approve the terms of the cash and stock compensation of the Company`s non-management directors in accordance with the terms as described in Proposal 2 of the Company`s Proxy Statement dated June 13, 2007"

The affirmative vote of the holders of a majority of the voting power of the Company represented at the Meeting in person or by proxy and voting thereon is necessary for approval of the terms of compensation of the Company`s non-management directors.

The Board of Directors recommends that the shareholders vote "FOR" the approval of the terms of compensation of the Company`s non-management Directors.

__11__

PROPOSAL NO. 3

APPROVAL OF STOCK OPTION ISSUANCE TO OUR CHAIRMAN OF THE BOARD

The Company`s success depends to a significant extent on the performance of its Chairman of the Board. The loss of the services of the Chairman of the Board could have an adverse effect on the Company. Mr. Gerstel requested that his compensation be entirely in the form of stock options and none in cash, and furthermore, that each such option, even if vested, shall not be exercisable if at the time of exercise, the Company`s share price is less than $10 per Ordinary Share. Therefore, in recognition of the importance of his services to the Company, the Board and its Audit Committee have approved, subject to the approval of the shareholders of the Company, the grant of options (each, an "Option" and collectively, the "Options") to the Chairman of the Board under the general terms of the "Compugen Share Option Plan (2000)" and the following terms and conditions:

1. Number of options to be granted: 500,000

2. Vesting Schedule: Monthly over a period of 4 years. 83,333 options shall be vested as of August 1, 2007 and the remaining 416, 667 options shall vest as follows: 10,416 options shall vest on a monthly basis over a period of 39 months thereafter, and 10,443 options shall vest in month 40 thereafter.

3. Limitation to exercising vested Options: Each vested Option shall not be exercisable if at the time of exercise, the closing price of the Company`s Ordinary Shares as reported by The Nasdaq Capital Market is less than $10 USD per Ordinary Share.

4. Exercise price per Option: Each Option shall be exercisable for one Ordinary Share at an exercise price equal to the closing price known at the date of the Meeting, as reported by The Nasdaq Capital Market

Any and all other terms and conditions pertaining to the grant of the Options shall be in accordance with, and subject to, the "Compugen Share Option Plan (2000)" and the Company's standard option agreement that shall be executed by the Chairman of the Board and by the Company promptly after the date of the Meeting.

The Board of Directors and the Audit Committee will present the following ordinary resolution at the Meeting:

"**RESOLVED,** that following the approval and recommendation by the Board of Directors of the Company and the Audit Committee of the Board of Directors, in compliance with the requirements of the Companies Law, the Company`s Chairman of the Board will be granted stock options to purchase Ordinary Shares of the Company as set

forth in Proposal 3 of the Proxy Statement of the Company dated June 13, 2007"

The affirmative vote of the holders of a majority of the voting power of the Company represented at the Meeting in person or by proxy and voting thereon is necessary for approval of this proposal.

The Board of Directors recommends that the shareholders vote "FOR" the approval of the grant of Options to our Chairman of the Board of Directors.

PROPOSAL NO. 4

APPROVAL OF CERTAIN COMPENSATION TO OUR CHIEF EXECUTIVE OFFICER AND DIRECTOR

Under Israeli law, the terms of service of the members of the Board of Directors of the Company requires the approval of the Audit Committee, Board of Directors and shareholders of the Company, in such order. In exchange for services to be rendered by Mr. Alex Kotzer as the Company`s Chief Executive Officer, each of the Audit Committee and the Board of Directors of the Company has approved certain modifications to his compensation package, as set forth below.

For calendar year 2006, Mr. Kotzer requested that a portion of his gross salary (which was previously approved by the shareholders of the Company) be provided to him in the form of Ordinary Shares and that his salary be determined in New Israeli Shekels. Pursuant to this request, the cash portion of Mr. Kotzer`s shareholders` approved gross salary for 2006 was reduced by approximately $28,000.

The Audit Committee and the Board of Directors of the Company has approved, subject to the approval of the shareholders of the Company, that Ordinary Shares, in a number equal to (i) $28,000, divided by (ii) the closing price of the Company`s Ordinary Shares known at the date of the Meeting, as reported by The Nasdaq Capital Market, be issued to Mr. Kotzer (the "Cash Replacement Shares") as consideration for the deduction of such amount from his 2006 salary.

In appreciation for his efforts and achievements, and in recognition of the significant progress of the Company during 2006, the Audit Committee and the Board of Directors of the Company recommended, subject to the approval of the Company`s shareholders, that Mr. Kotzer be paid a cash bonus, grossed up to cover the taxes payable by Mr. Kotzer as a result of issuing to him the Cash Replacement Shares.

The Board of Directors will present the following resolution at the Meeting:

"**RESOLVED** that following the approval and recommendation by the Board of Directors of the Company and the Audit Committee of the Board of Directors, in compliance with the requirements of the Companies Law, the Company`s Chief Executive Officer and director shall receive the compensation set forth in Proposal 4 of the Proxy Statement of the Company dated June 13, 2007".

The affirmative vote of the holders of a majority of the voting power of the Company represented at the Meeting in person or by proxy and voting thereon is necessary for approval of this proposal.

The Board of Directors recommends that the shareholders vote "FOR" the approval of the compensation for the Company`s Chief Executive Officer and director.

PROPOSAL NO. 5

APPROVAL OF AN AMENDMENT TO THE COMPANY'S ARTICLES OF ASSOCIATION

Pursuant to the Companies Law, the amendment of the Company`s Articles of Association requires the approval of the shareholders of the Company. Due to recent changes of the Companies Law and its regulations, the Company wishes to amend its Articles of Association so that they provide the Company with the maximum flexibility permitted by the Companies Law and its regulations. In compliance with the Companies Law, at the Meeting, the shareholders will be requested to adopt the amended and restated Articles of Association, in the form attached as **Exhibit A** to the this Proxy Statement (which shows the proposed changes relative to the Company`s current Articles of Association) and to adopt the resolution set forth below.

"RESOLVED that the Company shall adopt amended and restated Articles of Association as set forth in Proposal 5 of the Proxy Statement dated June 13, 2007."

The affirmative vote of the holders of a majority of the voting power of the Company represented at the Meeting in person or by proxy and voting thereon is necessary for approval of this proposal.

The Board of Directors recommends that the shareholders vote "FOR" the adoption of the Company`s amended and restated Articles of Association.

PROPOSAL NO. 6

APPROVAL OF EXTENSION OF THE TERM DURING WHICH NON-MANAGEMENT DIRECTORS MAY EXERCISE VESTED OPTIONS AFTER THE TERM OF THEIR SERVICE

The Company`s success depends to a significant extent on the performance of its non-management directors. In recognition for the services by any such non-management directors to the Company, and in connection with any options then held by any non-management directors, the shareholders of the Company shall be requested to adopt the resolution set forth below.

The Board of Directors and the Audit Committee will present the following ordinary resolution at the Meeting:

"RESOLVED to approve and to recommend to the shareholders that, with respect to any options then held by any non-management director, the period of time during which such non-management director may exercise any vested options as of the date of termination of services to the Company, be extended for one year after the cessation of his or her term as a director of the Company."

The affirmative vote of the holders of a majority of the voting power of the Company represented at the Meeting in person or by proxy and voting thereon is necessary for approval of this proposal.

The Board of Directors recommends that the shareholders vote "FOR" the extension of the term during which non-management directors may exercise vested options after the term of their service as set forth above.

PROPOSAL NO. 7

APPROVAL OF DIRECTORS AND OFFICER LETTER OF INDEMNIFICATION

Under the Companies Law, a company may undertake, provided that such actions are authorized by such company`s Articles of Association, to indemnify an office holder (as such term is defined in the Companies Law) ("Office Holder") for monetary liability incurred by him or her pursuant to a judgment, including a settlement or arbitration decision approved by a court, as well as for reasonable legal expenses incurred by him or her in an action brought against him or her by or on behalf of the company or others, or as a result of a criminal charge of which he or she was acquitted, or as a result of a criminal procedure in which he or she was convicted of a felony which does not require proof of criminal intent, provided that any such liability or expense incurred by such Office Holder is due to an action performed by such Office Holder by virtue of his or her position with the company, all subject to further terms, conditions and limitations as are set forth in the Companies Law.

Under the Companies Law, a company is entitled to undertake in advance to indemnify an Office Holder for the breach of his or her duty of care, provided that the Articles of Association of such company permit such indemnification in advance and further provided that such indemnification shall be limited to the type of events that, in the discretion of the Board of Directors of such company, may be anticipated at such time of undertaking and that such undertaking shall be limited to an amount which the Board of Directors of such company deems reasonable in light of the applicable circumstances, all subject to further terms, conditions and limitations as are set forth in the Companies Law.

Under the Companies Law, a company is also entitled to exempt an Office Holder from any liability for damages caused as a result of a breach of his or her duty of care to the Company, all subject to further terms, conditions and limitations as are set forth in the Companies Law.

The Board of Directors and the Audit Committee will present the following ordinary resolution at the Meeting:

"**RESOLVED,** that, subject to and to the fullest extent permitted by the provisions of the Companies Law, the Company undertake in advance to indemnify and exempt its Office Holders for monetary liability incurred in connection with their position as Office Holders, provided that in the aggregate such indemnification shall not exceed $5,000,000."

The affirmative vote of the holders of a majority of the voting power of the Company represented at the Meeting in person or by proxy and voting thereon is necessary for approval of this proposal.

The Board of Directors recommends that the shareholders vote FOR the approval of the undertaking to indemnify and exempt Office Holder as set forth above.

PROPOSAL NO. 8

APPROVAL OF APPOINTMENT
OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM AND AUTHORIZATION OF AUDIT COMMITTEE DETERMINATION OF REMUNERATION

The audit committee of our Board of Directors has selected Kost Forer Gabbay & Kasierer, a member of Ernst & Young Global, as our independent registered public accounting firm to perform the audit of our consolidated financial statements for the fiscal year ending December 31, 2007.

Shareholder approval of the appointment of Kost Forer Gabbay & Kasierer as our independent registered public accounting firm for the fiscal year ending December 31, 2007 is required under the Companies Law. The Audit Committee of our Board of Directors believe that such appointment is appropriate and in the best interests of the company and its shareholders. Subject to the approval of this proposal, the Audit Committee will fix the remuneration of Kost Forer Gabbay & Kasierer in accordance with the volume and nature of their services to the Company.

The Board of Directors and the Audit Committee will present the following ordinary resolution at the Meeting:

"**RESOLVED,** that Kost Forer Gabbay & Kasierer be appointed as the Company`s independent registered public accounting firm for the fiscal year ending December 31, 2007, and that the Company`s Audit Committee shall be authorized to determine their remuneration in accordance with the volume and nature of their services."

The affirmative vote of the holders of a majority of the voting power of the Company represented at the Meeting in person or by proxy and voting thereon is necessary for approval of this proposal.

The Board of Directors recommends that the shareholders vote FOR the approval of the appointment of Kost Forer Gabbay & Kasierer as our independent registered public accounting firm for the fiscal year ending December 31, 2007, and the authorization of our audit committee to determine their remuneration in accordance with the volume and nature of their services.

OTHER BUSINESS

Management of the Company knows of no other business to be transacted at the Meeting; but, if any other matters are properly presented to the Meeting, the persons named in the enclosed form of proxy will vote upon such matters in accordance with their best judgment.

By Order of the Board of Directors,

Martin Gerstel

Chairman of the Board

Tel Aviv, Israel

June 13, 2007

__17__

Exhibit A

Effective Date: [ ], 2007

AMENDED AND RESTATED

ARTICLES OF ASSOCIATION

OF COMPUGEN LTD.

PRELIMINARY

1. Company Name

The name of the Company is "Compugen Ltd." (the "Company").

2. Purpose

The purpose of the Company is to engage in any lawful act or activity for which companies may be organized under the Israeli Companies Law, 1999 (the "Companies Law").

3. Interpretation

(a) Unless the subject or the context otherwise requires: (i) words and expressions defined in the Companies Law in force on the date when these Articles or any amendment thereto, as the case may be, first became effective shall have the same meanings defined therein; (ii) words and expressions importing the singular shall include the plural and vice versa; (iii) words and expressions importing the masculine gender shall include the feminine gender; and (iv) words and expressions importing persons shall include bodies corporate.

(b) The captions in these Articles are for convenience only and shall not be deemed a part hereof or affect the construction of any provision hereof.

(c) The specific provisions of these Articles shall supercede the provisions of the Companies Law to the extent permitted under the Companies Law. With respect to any matter that is not specifically addressed in these Articles, the provisions of the Companies Law shall govern.

4. Limitation of Liability

The liability of each shareholder for the Company's obligations is limited to the unpaid sum, if any, owing to the Company in consideration for the issuance of the shares held by such shareholder.

SHARE CAPITAL

5. Authorized Share Capital

The share capital of the Company is NIS 500,000 (five hundred thousand New Israeli Shekels) divided into 50,000,000 (fifty million) Ordinary Shares of a nominal value of NIS 0.01 each (the "Ordinary Shares").

6. <u>Ordinary Shares</u>

The Ordinary Shares of the Company confer on the holders thereof rights to receive notice of, attend, and vote in meetings of the shareholders, rights to receive dividends, rights to receive a distribution of assets upon liquidation and certain other rights all as are specified in these Articles.

7. Increase of Share Capital

The Company may, from time to time, increase its share capital by the creation of new shares. Any such increase shall be in such amount and shall be divided into shares of such nominal amounts, and such shares shall confer such rights and preferences, and shall be subject to such restrictions, as the resolution approving the creation of such shares shall provide. Except to the extent otherwise provided in the resolution creating such new shares, such new shares shall be subject to all the provisions applicable to the shares of the original capital.

8. Special Rights; Modifications of Rights

(a) The Company may, from time to time, provide for shares with such preferred or deferred rights or rights of redemption or other special rights and/or such restrictions, whether in regard to dividends, voting, repayment of share capital or otherwise, as may be stipulated in the resolution pursuant to which such shares are created.

(b) (i) If at any time the share capital is divided into different classes of shares, the rights attached to any class, unless otherwise provided by these Articles, may be modified or abrogated by the Company, subject to the consent in writing of, or sanction of a resolution passed by, the holders of a majority of the issued shares of such class at a separate General Meeting of the holders of the shares of such class.

(ii) The provisions of these Articles relating to General Meetings shall, *mutatis mutandis*, apply to any separate General Meeting of the holders of the shares of a particular class; provided, however, that the requisite quorum at any such separate General Meeting shall be two or more shareholders present in person or proxy and holding not less than thirty-three and a third percent (331/3%) of the issued shares of such class.

(iii) Unless otherwise provided by these Articles, the enlargement of an existing class of shares, or the issuance of additional shares thereof, or the creation of a new class of shares identical to an existing class of shares in all respects shall not be deemed, for purposes of this Article 8(b), to modify or abrogate the rights attached to the previously issued shares of such class or of any other class.

9. Consolidation, Subdivision, Cancellation and Reduction of Share Capital

(a) The Company may, from time to time (subject, however, to the provisions of Article 8(b) hereof and to applicable law):

(i) consolidate and divide all or any of its issued or unissued share capital into shares of larger nominal value than its existing shares;

(ii) subdivide its shares (issued or unissued) or any of them, into shares of smaller nominal value than is fixed by these Articles (subject, however, to the provisions of the Companies Law), and the resolution whereby any share is subdivided may determine that, as among the holders of the shares resulting from such subdivision, one or more of the shares may, as compared with the others, have any such preferred or deferred rights or rights of redemption or

other special rights, or be subject to any such restrictions, as the Company has power to attach to unissued or new shares;

(iii) cancel any shares which, at the date of the adoption of such resolution have not been taken or agreed to be taken by any person, and diminish the amount of its share capital by the amount of the shares so cancelled; or

(iv) reduce its share capital in any manner, subject to any authorization or consent required, by law.

(b) With respect to any consolidation of issued shares into shares of larger nominal value, and with respect to any other action which may result in fractional shares, the Board of Directors may settle any difficulty which may arise with regard thereto, as it deems fit, including, inter alia, resort to one or more of the following actions:

(i) determine, as to the holder of shares so consolidated, which issued shares shall be consolidated into each share of larger nominal value;

(ii) allot, in contemplation of or subsequent to such consolidation or other action, such shares or fractional shares sufficient to preclude or remove fractional share holdings;

(iii) redeem, in the case of redeemable preference shares, and subject to applicable law, such shares or fractional shares sufficient to preclude or remove fractional share holdings;

(iv) cause the transfer of fractional shares by certain shareholders of the Company to other shareholders thereof so as to most expediently preclude or remove any fractional shareholdings, and cause the transferees to pay the transferors the fair value of fractional shares so transferred, and the Board of Directors is hereby authorized to act as agent for the transferors and transferees with power of substitution for purposes of implementing the provisions of this sub-Article 9(b)(iv).

SHARES

10. Issuance of Share Certificates; Replacement of Lost Certificates

(a) Share certificates shall bear the stamp or seal of the Company and shall bear the signature of a Director and/ or of any other person or persons authorized thereto by the Board of Directors.

(b) Each shareholder shall be entitled to one numbered certificate for all the shares of any class registered in his name, and if the Board of Directors so approves, to several certificates, each for one or more of such shares.

(c) A share certificate registered in the names of two or more persons shall be delivered to the person first named in the Share Register in respect of such co-ownership.

(d) If a share certificate is defaced, lost or destroyed, it may be replaced, upon payment of such fee, and upon the furnishing of such evidence of ownership and such indemnity, as the Board of Directors may think fit.

11. Registered Holder

Except as otherwise provided in these Articles, the Company shall be entitled to treat the registered holder of any share as the absolute owner thereof, and, accordingly, shall not, except as ordered by a court of competent jurisdiction, or as required by statute, be bound to recognize any equitable or other claim to, or interest in such share on the part of any other person.

12. Allotment of Shares

The authorized and unissued shares shall be under the control of the Board of Directors, who shall have the power to allot shares or otherwise dispose of them to such persons, on such terms and conditions, and at such times, as the Board of Directors may think fit, and the power to give to any person the option to acquire from the Company any shares, during such time and for such consideration as the Board of Directors may think fit.

13. Payment in Installments

If by the terms of allotment of any share, the whole or any part of the price thereof shall be payable in installments, every such installment shall, when due, be paid to the Company by the then registered holder(s) of the share of the person(s) entitled thereto.

14. Calls on Shares

(a) The Board of Directors may, from time to time, make such calls as it may think appropriate upon shareholders in respect of any sum unpaid in respect of shares held by such shareholders which is not, by the terms of allotment thereof or otherwise, payable at a fixed time, and each shareholder shall pay the amount of every call so made upon him (and of each installment thereof if the same is payable in installments), to the person(s) and at the time(s) and place(s) designated by the Board of Directors, as any such time(s) may be thereafter extended and/or such person(s) or place(s) changed. Unless otherwise stipulated in the resolution of the Board of Directors (and in the notice hereafter referred to), each payment in response to a call shall be deemed to constitute a pro rata payment on account of all shares in respect of which such call was made.

(b) Notice of any call shall be given in writing to the shareholder(s) in question not less than fourteen (14) days prior to the time of payment, specifying the time and place of payment, and designating the person to whom such payment shall be made; provided, however, that before the time for any such payment, the Board of Directors may, by notice in writing to such shareholder(s), revoke such call in whole or in part, extend such time, or alter such person and/or place. In the event of a call payable in installments, only one notice thereof need be given.

(c) If, by the terms of allotment of any share or otherwise, any amount is made payable at any fixed time, every such amount shall be payable at such time as if it were a call duly made by the Board of Directors and of which due notice had been given, and all the provisions herein contained with respect to such calls shall apply to each such amount.

(d) The joint holders of a share shall be jointly and severally liable to pay all calls in respect thereof and all interest payable thereon.

(e) Any amount unpaid in respect of a call shall bear interest from the date on which it is payable until actual payment thereof, at such rate (not exceeding the then prevailing debitory

__21__

rate charged by leading commercial banks in Israel), and at such time(s) as the Board of Directors may prescribe.

(f) Upon the allotment of shares, the Board of Directors may provide for differences among the allottees of such shares as to the amount of calls and/or the times of payment thereof.

15. Prepayment

With the approval of the Board of Directors, any shareholder may pay to the Company any amount not yet payable in respect of such shareholder's shares, and the Board of Directors may approve the payment of interest on any such amount until the same would be payable if it had not been paid in advance, at such rate and time(s) as may be approved by the Board of Directors. The Board of Directors may at any time cause the Company to repay all or any part of the money so advanced, without premium or penalty. Nothing in this Article 15 shall derogate from the right of the Board of Directors to make any call before or after receipt by the Company of any such advance.

16. Forfeiture and Surrender

(a) If any shareholder fails to pay any amount payable in respect of a call, or interest thereon as provided for herein, on or before the day fixed for payment of the same, the Company, by resolution of the Board of Directors, and subject to the provisions of Section 181 of the Companies Law, may at any time thereafter, so long as the said amount or interest remains unpaid, forfeit all or any of the shares in respect of which said call had been made. Any expense incurred by the Company in attempting to collect any such amount or interest, including, inter alia, attorneys' fees and costs of suit, shall be added to, and shall, for all purposes (including the accrual of interest thereon), constitute a part of the amount payable to the Company in respect of such call.

(b) Upon the adoption of a resolution of forfeiture, the Board of Directors shall cause notice thereof to be given to such shareholder, which notice shall state that, in the event of the failure to pay the entire amount so payable within a period stipulated in the notice (which period shall not be less than fourteen (14) days and which may be extended by the Board of Directors), such shares shall be ipso facto forfeited, provided, however, that, prior to the expiration of such period, the Board of Directors may nullify such resolution of forfeiture, but no such nullification shall stop the Board of Directors from adopting a further resolution of forfeiture in respect of the non-payment of the same amount.

(c) Whenever shares are forfeited as herein provided, all dividends theretofore declared in respect thereof and not actually paid shall be deemed to have been forfeited at the same time.

(d) The Company, by resolution of the Board of Directors, may accept the voluntary surrender of any share.

(e) Any share forfeited or surrendered as provided herein shall become the property of the Company, and the same, subject to the provisions of these Articles, may be sold, re-allotted or otherwise disposed of as the Board of Directors thinks fit.

(f) Any shareholder whose shares have been forfeited or surrendered shall cease to be a shareholder in respect of the forfeited or surrendered shares, but shall, notwithstanding, be liable to pay, and shall forthwith pay, to the Company, all calls, interest and expenses owing upon or in respect of such shares at the time of forfeiture or surrender, together with interest thereon from the time of forfeiture or surrender until actual payment, at the rate prescribed in Article 14(e) above,

and the Board of Directors, in its discretion, may enforce the payment of such moneys, or any part thereof, but shall not be under any obligation to do so. In the event of such forfeiture or surrender, the Company, by resolution of the Board of Directors, may accelerate the date(s) of payment of any or all amounts then owing by the shareholder in question (but not yet due) in respect of all shares owned by such shareholder, solely or jointly with another, and in respect of any other matter or transaction whatsoever.

(g) The Board of Directors may at any time, before any share so forfeited or surrendered shall have been sold, re-allotted or otherwise disposed of, nullify the forfeiture or surrender on such conditions as it thinks fit, but no such nullification shall stop the Board of Directors from re-exercising its powers of forfeiture pursuant to this Article 16.

17. Lien

(a) Except to the extent the same may be waived or subordinated in writing, the Company shall have a first and paramount lien upon all the shares registered in the name of each shareholder (without regard to any equitable or other claim or interest in such shares on the part of any other person), and upon the proceeds of the sale thereof, for such shareholders debts, liabilities and engagements arising from any cause whatsoever, solely or jointly with another, to or with the Company, whether the period for the payment, fulfillment or discharge thereof shall have actually arrived or not. Such lien shall extend to all dividends from time to time declared in respect of such share. Unless otherwise provided, the registration by the Company of a transfer of shares shall be deemed to be a waiver on the part of the Company of the lien (if any) existing on such shares immediately prior to such transfer.

(b) The Board of Directors may cause the Company to sell any shares subject to such lien when any such debt, liability or engagement has matured, in such manner as the Board of Directors may think fit, but no such sale shall be made unless such debt, liability or engagement has not been satisfied within fourteen (14) days after written notice of the intention to sell shall have been served on such shareholder, or such shareholder's executors or administrators.

(c) The net proceeds of any such sale, after payment of the costs thereof, shall be applied in or toward satisfaction of the debts, liabilities or engagements of such shareholder (whether or not the same have matured), or any specific part of the same (as the Company may determine), and the residue (if any) shall be paid to the shareholder, such shareholder's executors, administrators or assigns.

18. Sale after Forfeiture or Surrender or in Enforcement of Lien

Upon any sale of shares after forfeiture or surrender or for enforcing a lien, the Board of Directors may appoint a person to execute an instrument of transfer of the shares so sold and cause the purchaser's name to be entered in the Share Register in respect of such shares, and the purchaser shall not be bound to see to the regularity of the proceedings, or to the application of the purchase money, and after such purchaser's name has been entered in the Share Register in respect of such

shares, the validity of the sale shall not be impeached by any person, and the remedy of any person aggrieved by the sale shall be in damages only and against the Company exclusively.

19. Redeemable Shares

The Company may, subject to the provisions of the Companies Law, issue redeemable shares and redeem the same upon such terms and conditions as determined by the Board of Directors.

TRANSFER OF SHARES

20. Effectiveness and Registration

The shares of the Company are freely transferable. No transfer of shares shall be registered unless a proper instrument of transfer (in form and substance satisfactory to the Board of Directors) has been submitted to the Company, together with the share certificate(s) and such other evidence of title as the Board of Directors may reasonably require. Until the transferee has been registered in the Share Register in respect of the shares so transferred, the Company may continue to regard the transferor as the owner thereof. The Board of Directors, may, from time to time, prescribe a reasonable fee for the registration of a transfer.

21. Suspension of Registration

The Board of Directors may, in its discretion to the extent it deems necessary, close the Shareholder Register for registrations of transfers of shares for a period determined by the Board of Directors, and no registrations of transfers of shares shall be made by the Company for the period during which the Shareholder Register is so closed.

22. Record Date for Notices of General Meetings and Other Action

Notwithstanding any provision of these Articles to the contrary, in order to allow the Company to determine the shareholders entitled to notice of, or to vote at, any Annual or Special General Meeting or any adjournment thereof, or to express consent to or dissent from any corporate action in writing without a meeting, or entitled to receive payment of any dividend or other distribution or allotment of any rights, or entitled to exercise any rights in respect of, or to take or be the subject to, any other action, the Board of Directors may fix a record date, which shall not be more than forty (40) (or any longer period permitted under the Companies Law), nor less than four (4) days before the date of such meeting or other action. A determination of shareholders of record entitled to notice of or to vote at a meeting shall apply to any adjournment of the meeting; provided, however, that the Board of Directors may fix a new record date for the adjourned meeting. No persons other than holders of record of shares of the Company as of such record date shall be entitled to notice of and to participate in and vote at such General Meeting, or to exercise such other right, as the case may be.

TRANSMISSION OF SHARES

23. Decedents' Shares

(a) In case of a share registered in the names of two or more holders, the Company may recognize the survivor(s) as the sole owner(s) thereof unless and until the provisions of Article 23(b) have been effectively invoked.

(b) Any person becoming entitled to a share in consequence of the death of any person, upon producing evidence of the grant of probate or letters of administration or declaration of succession (or such other evidence as the Board of Directors may reasonably deem sufficient that he sustains the character in respect of which he proposes to act under this Article or of his title), shall be registered as a shareholder in respect of such share, or may, subject to the regulations as to transfer herein contained, transfer such share.

24. Receivers and Liquidators

(a) The Company may recognize the receiver or liquidator of any corporate shareholder in winding-up or dissolution, or the receiver or trustee in bankruptcy of any shareholder, as being entitled to the shares registered in the name of such shareholder.

(b) The receiver or liquidator of a corporate shareholder in winding-up or dissolution, or the receiver or trustee in bankruptcy of any shareholder, upon producing such evidence as the Board of Directors may deem sufficient that he sustains the character in respect of which he proposes to act under this Article or of his title, shall with the consent of the Board of Directors (which the Board of Directors may grant or refuse in its absolute discretion), be registered as a shareholder in respect of such shares, or may, subject to the regulations as to transfer herein contained, transfer such shares.

GENERAL MEETINGS

25. Annual General Meeting

(a) An Annual General Meeting shall be held once in every calendar year at such time (within a period of not more than fifteen (15) months after the last preceding Annual General Meeting) and at such place either within or without the State of Israel as may be determined by the Board of Directors.

(b) Subject to the provisions of these Articles, the function of the Annual General Meeting shall be to elect the members of the Board of Directors; to receive the Financial Statements, to appoint the Company`s auditors and to fix their remuneration and to transact any other business which under these Articles or the Companies Law are to be transacted at a General Meeting.

26. Special General Meetings

(a) All General Meetings other than Annual General Meetings shall be called "Special General Meetings."

(b) The Board of Directors may, whenever it thinks fit, convene a Special General Meeting at such time and place, within or out of the State of Israel, as may be determined by the Board of Directors.

(c) The Board of Directors shall be obligated to convene a Special General Meeting at such time and place, within or without the State of Israel, as may be determined by the Board of Directors, upon requisition in writing in accordance with the Companies Law.

27. Notice of General Meetings; Omission to Give Notice

(a) Not less than twenty-one (21) days' prior notice, or thirty-five (35) days' prior notice to the extent required under regulations promulgated under the Companies Law, shall be given of every General Meeting. Each such notice shall specify the place and the day and hour of the meeting and the general nature of each item to be acted upon thereat, as well as any other information required by the Companies Law or any regulation promulgated thereunder, said notice to be given to all shareholders who will be entitled to attend and vote at such meeting and delivered or publicized in any manner permitted under the Companies Law. Anything therein to the contrary notwithstanding, with the consent of all shareholders entitled to vote thereon, a resolution may be proposed and passed at such meeting although a lesser notice than hereinabove prescribed has been given.

(b) The accidental omission to give notice of a meeting to any shareholder, or the non-receipt of notice sent to such shareholder, shall not invalidate the proceedings at such meeting.

(c) Notwithstanding anything to the contrary in this Article 27, and subject to any applicable stock exchange rules or regulations, notice by the Company of a General Meeting which is published in two daily newspapers in Israel shall be deemed to have been duly given on the date of such publication to any shareholder whose address as listed in the Register of Shareholders (or as designated in writing for the receipt of notices and other documents) is located in the State of Israel, and notice by the Company of a General Meeting which is published in one daily newspaper in New York, New York, U.S.A. or in one international wire service shall be deemed to have been duly given on the date of such publication to any shareholder whose address as registered in the

Register of Shareholders (or as designated in writing for the receipt of notices and other documents) is located outside Israel. The date of publication of a notice of a General Meeting as set forth in this Article, and the date of the meeting shall be counted as part of the days comprising any notice period with respect to such General Meeting.

(d) Any shareholder or shareholders, holding at least one percent (1%) of the voting rights in the issued share capital of the Company, may, pursuant to the Companies Law, request that the Board of Directors include a certain item on the agenda of the meeting to be held in the future. In addition, subject to the Companies Law, the Board of Directors may include such subject in the agenda only if such request has been submitted to the Company in writing at least eight (8) weeks prior to the date of the meeting (or such shorter period as may be determined by the Board of Directors).PROCEEDINGS AT GENERAL MEETINGS

28. Entitlement to Notice; Participation

(a) Notice shall be given to all shareholders registered in the Company`s Share Register.

(b) The Board of Directors shall set a record date, which date shall comply with the requirements of the Companies Law. Shareholders of record, as set forth in the Company`s Share Register, on the day determined by the Board of Directors and set forth in the notice of General Meeting shall be entitled to participate and vote in the General Meeting.

29. Quorum

(a) Two or more shareholders (not in default in payment of any sum referred to in Article 35(a) hereof), present in person, by proxy or by proxy card and holding shares conferring in the aggregate thirty-three and a third percent ($33^1/_3$%) or more of the voting power of the Company, shall constitute a quorum at General Meetings. No business shall be transacted at a General Meeting, or at any adjournment thereof, unless the requisite quorum is present when the meeting proceeds to business.

(b) If within an hour from the time appointed for the meeting a quorum is not present, the meeting, if convened upon requisition under Article 26(c), shall be dissolved, but in any other case it shall stand adjourned to the same day in the next week, at the same time and place, or to such day and at such time and place as the Chairman may determine with the consent of the holders of a majority of the voting power represented at the meeting in person or by proxy and voting on the question of adjournment. No business shall be transacted at any adjourned meeting except business that might lawfully have been transacted at the meeting as originally called. At such adjourned meeting, any two (2) shareholders (not in default as aforesaid) present in person, by proxy or by proxy card, shall constitute a quorum.

(c) The Board of Directors may determine, in its discretion, the matters that may be voted upon at the meeting by proxy in addition to the matters listed in Section 87(a) of the Companies Law.

30. Chairman

The Chairman, if any, of the Board of Directors shall preside as Chairman at every General Meeting of the Company. If there is no such Chairman, or if at any meeting such Chairman is not present within fifteen (15) minutes after the time fixed for holding the meeting or is unwilling to act as Chairman, the shareholders present shall choose someone of their number to be Chairman. The office of Chairman shall not, by itself, entitle the holder thereof to vote at any General Meeting nor shall it entitle such holder to a second or casting vote (without derogating, however, from the rights of such Chairman to vote as a shareholder or proxy of a shareholder if, in fact, he or she is also a shareholder or such proxy).

31. Adoption of Resolutions at General Meetings

(a) Except with respect to matters which require the approval of a special majority under the Companies Law, all resolutions of the shareholders shall be deemed adopted if approved by the holders of a simple majority of the voting power represented at the meeting, in person, by proxy or by proxy card, and voting thereon.

(b) Every question submitted to a General Meeting shall be decided by a show of hands, but if a written ballot is demanded by any shareholder present in person or by proxy and entitled to vote at the meeting, the same shall be decided by such ballot. A written ballot may be demanded before the proposed resolution is voted upon or immediately after the declaration by the Chairman of the results of the vote by a show of hands. If a vote by written ballot is taken after such declaration, the results of the vote by a show of hands shall be of no effect, and the proposed resolution shall be decided by such written ballot. The demand for a written ballot may be withdrawn at any time before the same is conducted, in which event another shareholder may then demand such written ballot. The demand for a written ballot shall not prevent the continuance of the meeting for the transaction of business other than the question on which the written ballot has been demanded. All votes properly tendered by proxy card, as set forth in Article 33(c)(iii), with respect to a given resolution shall be counted for purposes of determining the outcome of any vote with respect to such resolution taken by show of hands or by secret ballot.

(c) A declaration by the Chairman of the meeting that a resolution has been carried unanimously, or carried by a particular majority, or lost, and an entry to that effect in the minute book of the Company, shall be prima facie evidence of the fact without proof of the number or proportion of the votes recorded in favor of or against such resolution.

32. Manner of the Meeting

The Board of Directors may, in its absolute discretion, resolve to enable persons entitled to attend a general meeting to do so by simultaneous attendance and participation at the principal meeting place and a satellite meeting place or places anywhere in the world and the shareholders present in person, by proxy or by written ballot at satellite meeting places shall be counted in the quorum for and entitled to vote at the general meeting in question, and that meeting shall be duly constituted and its proceedings valid, provided that the chairman of the general meeting is satisfied that adequate facilities are available throughout the general meeting to ensure that shareholders attending at all the meeting places are able to:

(a) participate in the business for which the meeting has been convened;

(b) hear all persons who speak (whether by the use of microphones, loudspeakers audio-visual communications equipment or otherwise) in the principal meeting place and any satellite meeting place(s); and

(c) be heard by all other persons so present in the same way.

33. Resolutions in Writing

A resolution in writing signed by all shareholders of the Company then entitled to attend and vote at General Meetings or to which all such shareholders have given their written consent (by letter, telegram, telex, facsimile, email or otherwise) shall be deemed to have been unanimously adopted by a General Meeting duly convened and held.

34. Power to Adjourn

(a) The Chairman of a General Meeting at which a quorum is present may, with the consent of the holders of a majority of the voting power represented in person or by proxy and voting on the question of adjournment (and shall if so directed by the meeting), adjourn the meeting from time to time and from place to place, but no business shall be transacted at any adjourned meeting except business which might lawfully have been transacted at the meeting as originally called.

(b) It shall not be necessary to give any notice of an adjournment, unless the meeting is adjourned for thirty (30) days or more in which event notice thereof shall be given in the manner required for the meeting as originally called.

35. Voting Power

Subject to the provisions of Article 36(a) and subject to the rights of holders of shares with special rights as to voting, every shareholder shall have one vote for each share held by such shareholder of record, on every resolution, without regard to whether the vote hereon is conducted by a show of hands, by written ballot or by any other means.

36. Voting Rights

(a) No shareholder shall be entitled to vote at any General Meeting (or be counted as a part of the quorum thereat), unless all calls and other sums then payable by such shareholder in respect of such shareholder's shares in the Company have been paid.

(b) A company or other corporate body being a shareholder of the Company may, subject to applicable law, authorize any person to be its representative at any meeting of the Company or execute or deliver a proxy on its behalf. Any person so authorized shall be entitled to exercise on behalf of such shareholder all the power that the latter could have exercised if it were an individual shareholder. Upon the request of the Chairman of the meeting, written evidence of such authorization (in form acceptable to the Chairman) shall be delivered to the Chairman.

(c) Any shareholder entitled to vote may vote in one of the following manners:

(i) personally;

(ii) by proxy (who need not be a shareholder of the Company);

(iii) by proxy card, provided it is completed and returned to the Company`s offices in accordance with its terms; or

(iv) if the shareholder is a company or other corporate body, by a representative authorized pursuant to Article 36(b).

(d) If two or more persons are registered as joint holders of any share, the vote of the senior who tenders a vote, in person, by proxy or by proxy card, shall be accepted to the exclusion of the vote(s) of the other joint holder(s); and for this purpose seniority shall be determined by the order in which the names stand in the Share Register.

37. Proxies; Instrument of Appointment

(a) The instrument appointing a proxy shall be in writing and shall be substantially in the following form:

"I ____________ (Name of Shareholder) of __________ (Address of Shareholder) being a shareholder of Compugen Ltd. hereby appoint ______________ (Name of Proxy) of ____________ (Address of Proxy) as my proxy to vote for me and on my behalf at the General Meeting of the Company to be held on the _____ day of _______, 20__ and at any adjournment(s) thereof.

Signed this ______ day of ____________, 20__.

____
(Signature of Appointer)"

or in any usual or common form or in such other form as may be approved by the Board of Directors, including a form which provides for a continuing proxy until the occurrence of such date or event as is specified in the proxy. It shall be duly signed by the appointer or his duly authorized attorney, which signature shall be confirmed by an advocate or notary or bank or in any other manner acceptable to the Chairman or, if such appointer is a company or other corporate body, under its common seal or stamp or the hand of its duly authorized agent(s) or attorney(s).

(b) The instrument appointing a proxy (and the power of attorney or other authority, if any, under which such instrument has been signed) shall either be delivered to the Company (at its Registered Office, or at its principal place of business or at the offices of its registrar and/or transfer agent or at such place as the Board of Directors may specify) not less than two (2) hours before the time fixed for the meeting at which the person named in the instrument proposes to vote, or presented to the Chairman at such meeting.

(c) Proxy cards shall be in such form, and substance, as shall be prescribed by the Board of Directors. Proxy cards shall be completed and delivered to the Company (at its Registered Office, or at its principal place of business or at the offices of its registrar and/or transfer agent or at such place as the Board of Directors may specify) in accordance with its terms.

(d) A vote cast pursuant to an instrument appointing a proxy or by proxy card shall be valid notwithstanding the previous death, liquidation or winding-up of the appointing shareholder (or of his attorney-in-fact, if any, who signed such instrument), or the revocation of the appointment or the transfer of the share in respect of which the vote is cast, provided no written intimation of such death, liquidation, winding-up revocation or transfer shall have been received by the Company or by the Chairman of the meeting before such vote is cast and provided, further,

that the appointing shareholder, if present in person at said meeting, may revoke the appointment by means of a writing, oral notification to the Chairman, or otherwise.

(e) An instrument appointing a proxy shall be deemed revoked (i) upon receipt by the Company or the Chairman, subsequent to receipt by the Company of such instrument, of written notice signed by the person signing such instrument or by the shareholder appointing such proxy canceling the appointment thereunder (or the authority pursuant to which such instrument was signed) or of an instrument appointing a different proxy (and such other documents, if any, required under this Article 37(b) for such new appointment), provided such notice of cancellation or instrument appointing a different proxy were so received at the place and within the time for delivery of the instrument revoked thereby as referred to in Article 37(b) hereof, or (ii) if the appointing shareholder is present in person at the meeting for which such instrument of proxy was delivered, upon receipt by the Chairman of such meeting of written notice from such shareholder of the revocation of such appointment, or if and when such shareholder votes at such meeting. A vote cast in accordance with an instrument appointing a proxy shall be valid notwithstanding the revocation or purported cancellation of the appointment, or the presence in person or vote of the appointing shareholder at a meeting for which it was rendered, unless such instrument of appointment was deemed revoked in accordance with the foregoing provisions of this Article 37(b) at or prior to the time such vote was cast.

BOARD OF DIRECTORS

38. Powers of Board of Directors

(a) General. The Board of Directors shall determine the Company's policies, oversee the activities of the Chief Executive Officer, and take such other actions as are described in Section 92 of the Companies Law. The Board of Directors shall be empowered to exercise any power of the Company not conferred upon by the Companies Law or by these Articles on any other organ of the Company. The authority conferred on the Board of Directors by this Article 38 shall be subject to the provisions of the Companies Law and of these Articles.

(b) Borrowing Power. The Board of Directors may from time to time, at its discretion, cause the Company to borrow or secure the payment of any sum or sums of money for the purposes of the Company, and may secure or provide for the repayment of such sum or sums in such manner, at such times and upon such terms and conditions as it deems fit, and, in particular, by the issuance of bonds, perpetual or redeemable debentures, debenture stock, or any mortgages, charges, or other securities on the undertaking or the whole or any part of the property of the Company, both present and future, including its uncalled or called but unpaid capital for the time being.

(c) Reserves. The Board of Directors may, from time to time, set aside any amount(s) out of the profits of the Company as a reserve or reserves for any purpose(s) which the Board of Directors, in its absolute discretion, shall deem fit, including without limitation, capitalization and distribution of bonus shares, and may invest any sum so set aside in any manner and from time to time deal with and vary such investments and dispose of all or any part thereof, and employ any

such reserve or any part thereof in the business of the Company without being bound to keep the same separate from other assets of the Company, and may subdivide or redesignate any reserve or cancel the same or apply the funds therein for another purpose, all as the Board of Directors may from time to time think fit.

39. Exercise of Powers of Directors

(a) A meeting of the Board of Directors at which a quorum is present, whether in person or by any other means by which the Directors may hear each other simultaneously, shall be competent to exercise all the authorities, powers and discretions vested in or exercisable by the Board of Directors.

(b) A resolution proposed at any meeting of the Board of Directors shall be deemed adopted if approved by a majority of the Directors present when such resolution is put to a vote and voting thereon.

(c) The Board of Directors is authorized to adopt any resolution without an actual meeting, provided that all Directors then in office and lawfully entitled to vote thereon (as conclusively determined by the Chairman of the Board of Directors) have agreed in writing or given their consent (by telephone, e-mail, facsimile, letter or otherwise) to the adoption of such resolution. In the event of the adoption of a resolution pursuant to this Article 39(c), the Chairman of the Board shall state in the minutes the manner in which each Director voted on the resolution and the fact that all directors consented to the adoption of the resolution without the convening of a meeting.

40. Audit Committee

(a) The Board of Directors shall appoint an Audit Committee (all of whose members must be Directors) comprised of at least three Directors, including all of the Outside Directors. The composition of the Audit Committee shall be in compliance with the Companies Law and with the rules of any stock exchange on which the shares of the Company are traded.

(b) The duties of the Audit Committee shall be as provided by applicable law and shall include:

(i) to detect any deficiencies in the business management of the Company, by among other things consulting with the Company`s Internal Auditor and independent auditors, and to propose to the Board of Directors ways of correcting these deficiencies; and

(ii) to decide whether to approve actions and transactions requiring approval of the Audit Committee pursuant to the Companies Law.

41. Delegation of Powers

(a) Subject to Section 112 of the Companies Law, the Board of Directors may delegate any or all of its powers to committees, each consisting of two or more persons (all of

whose members must be Directors, at least one of which must be an Outside Director), and it may from time to time revoke such delegation or alter the composition of any such committee. Any Committee so formed (in these Articles referred to as a "Committee of the Board of Directors"), shall, in the exercise of the powers so delegated, conform to any regulations imposed on it by the Board of Directors. The meetings and proceedings of any such Committee of the Board of Directors shall, mutatis mutandis, be governed by the provisions herein contained for regulating the meetings of the Board of Directors, so far as not superseded by any regulations adopted by the Board of Directors under this Article. Unless otherwise expressly provided by the Board of Directors in delegating powers to a Committee of the Board of Directors, such Committee shall not be empowered to further delegate such powers.

(b) Without derogating from the provisions of Article 56, the Board of Directors may, subject to the provisions of the Companies Law, from time to time appoint a Secretary to the Company, as well as officers, agents, employees and independent contractors, as the Board of Directors may think appropriate, and may terminate the service of any such person. The Board of Directors may, subject to the provisions of the Companies Law, determine the powers and duties, as well as the terms and conditions of employment, of all such persons, and may require security in such cases and in such amounts as it thinks appropriate.

(c) The Board of Directors may from time to time, by power of attorney or otherwise, appoint any person, company, firm or body of persons to be the attorney or attorneys of the Company at law or in fact for such purpose(s) and with such powers, authorities and discretions, and for such period and subject to such conditions, as it thinks fit, and any such power of attorney or other appointment may contain such provisions for the protection and convenience of persons dealing with any such attorney as the Board of Directors may think fit, and may also authorize any such attorney to delegate all or any of the powers, authorities and discretions vested in him.

42. Number of Directors

(a) The number of members of the Board of Directors (including Outside Directors) shall be determined, from time to time, by the Annual General Meeting, provided that the Board of Directors of the Company shall consist of not less than five (5) directors and not more than fourteen (14) Directors.

(b) The requirements of the Companies Law applicable to Outside Directors shall prevail over the provisions of these Articles to the extent that these Articles are inconsistent with the Companies Law, and shall apply to the extent that these Articles are silent.

43. Election, Appointment and Removal of Directors

(a) The Directors shall be elected and dismissed by the holders of a majority of the shares present and voting at an Annual General Meeting, provided that any vote to appoint or dismiss an Outside Director shall satisfy the requirements of Section 239 or Section 246, as the case may be, of the Companies Law. Subject to Article 42 above, between annual meetings, the Board shall be empowered to appoint directors, other than Outside Directors, by a majority vote of the directors.

(b) All Directors, except Outside Directors, shall retire at the Annual General Meeting of the Company immediately following the Annual General Meeting at which they were elected, subject to the provisions of sub-article 43(d) below. The term of office of Outside Directors shall

be as provided in the Companies Law.

(c) A retiring Director shall be eligible for re-election, provided that Outside Directors shall only be entitled to re-election as provided in the Companies Law.

(d) If at any Annual General Meeting, the places of the vacating directors are not filled, the meeting shall stand adjourned until the same day in the next week at the same time and place, and if at the adjourned meeting the places of the vacating Directors are, again, not filled, the vacating Directors shall be deemed to have been re-elected at the adjourned meeting. In any event, a retiring director shall remain in office until a new director has been elected or appointed in his or her place.

(e) Notwithstanding anything to the contrary in this Article 43, the shareholders may, at any time, by resolution at a Special General Meeting, discharge from office any member of the Board of Directors (provided that with respect to Outside Directors, the dismissal is effected in accordance with Section 246 of the Companies Law) and/or to appoint a member to the Board of Directors (provided that with respect to Outside Directors, the requirements of Section 239 of the Companies Law are satisfied).

44. Qualification of Directors

No person shall be disqualified to serve as a Director by reason of his not holding shares in the Company or by reason of his having served as a Director in the past, subject to Sections 240 and 245 of the Companies Law with respect to Outside Directors.

45. Continuing Directors in the Event of Vacancies

In the event of one or more vacancies in the Board of Directors, the continuing Directors may continue to act in every matter, and, pending the filling of any vacancy pursuant to the provisions of Article 43, may temporarily fill any such vacancy; provided, however, that if they number less than a majority of the number provided for pursuant to Article 42 hereof or if the number of Outside Directors drops below two, they may only act in an emergency, and must call a General Meeting of the Company for the purpose of electing Directors to fill any or all vacancies, so that at least a majority of the number of Directors provided for pursuant to Article 42 hereof, or at least two Outside Directors, as the case may be, are in office as a result of said meeting.

46. Vacation of Office

(a) The office of a Director shall be vacated by the Director's written resignation. Such resignation shall become effective on the date fixed therein, or upon the delivery thereof to the Company, whichever is later.

(b) The Company will be entitled, at any time, by resolution of the shareholders at a Special General Meeting, to discharge from office any Director, provided such Director is given a reasonable opportunity to state his or her case before the shareholders at the General Meeting. The

power granted by this sub-article shall not apply to Outside Directors, unless such discharge is effected in accordance with Section 246 of the Companies Law.

(c) The office of a Director shall be vacated, ipso facto, upon the occurrence of any of the following: (i) such Director's death, (ii) such Director is convicted of a crime as described in Section 232 of the Companies Law, (iii) such Director is removed by a court of law in accordance with Section 233 of the Companies Law, (iv) such Director becomes legally incompetent, or (v) such Director is declared bankrupt, or (vi) if such Director is a corporate entity, upon its winding-up liquidation, whether voluntary or involuntary.

47. Remuneration of Directors

No Director shall be paid any remuneration by the Company for such Director's services as a member of the Board of Directors or for any other services provided to the Company, unless such remuneration has been approved pursuant to the provisions of the Companies Law.

48. Conflict of Interests

Subject to the provisions of the Companies Law, the Company may enter into any contract or otherwise transact any business with any Office Holder in which contract or business such Office Holder has a personal interest, directly or indirectly; and may enter into any contract of otherwise transact any business with any third party in which contract or business an Office Holder has a personal interest, directly or indirectly.

49. [Intentionally left blank]***[Note to Compugen: this placeholder originally contained provisions for the appointment of alternate directors, which were deleted the request of the Company at some prior meeting. Is this still the position of the Compan or is there any reason to replace the alternate directors provisions?]***

PROCEEDINGS OF THE BOARD OF DIRECTORS

51. Meetings

(a) The Board of Directors shall convene meetings as required to fulfill the needs of the Company, but in any event shall convene at least one meeting in every three month period. The Board of Directors may meet and adjourn its meetings and otherwise regulate such meetings and proceedings as the Directors think fit. Meetings of the Board of Directors may be held telephonically or by any other means of communication provided that each Director participating in such meeting can hear all of the other Directors participating in such meeting.

(b) The Chairman of the Board of Directors may convene a meeting of the Board of Directors, but not less than two (2) days' written notice shall be given of any meeting, unless such notice is waived in writing by all of the Directors as to a particular meeting. The notice of meeting shall include the agenda of the meeting. Notice of the meetings of the Board of Directors shall be sent to each Director in any reasonable manner at the last physical or email address or telephone or facsimile number that the Director provided to the Company.

(c) Upon the receipt of a written request under any of the following circumstances, the Chairman of the Board of Directors shall, and in the absence of a Chairman, any Director receiving such written request shall, convene a meeting of the Board of Directors, but not less than two (2)

days' written notice shall be given of any meeting, unless such notice is waived in writing by all of the Directors as to a particular meeting:

(i) upon the receipt of a written request from any two Directors, or in the event that there are five or less Directors serving in office at the time, upon the written request of any Director;

(ii) upon the receipt of a written request from any Director requesting that a meeting be adjourned and stating that he or she has learned of an alleged violation of the law or proper business procedure by the Company.

(iii) upon the receipt of any written request from the Chief Executive Officer of the Company requesting an action of the Board of Directors; or

(iv) upon the receipt of a written request from the independent auditor(s) of the Company regarding material flaws in the oversight of the Company's internal accounting methods.

(c) A resolution in writing signed by all of the Directors then in office and lawfully entitled to vote thereon (as conclusively determined by the Chairman of the Audit Committee, and in the absence of such determination by the Chairman of the Board of Directors) or to which all of such Directors have given their consent (by letter, telegram, telex, facsimile, email or their oral consent by telephone (provided that a written summary thereof has been approved and signed by the Chairman of the Board of Directors of the Company) shall be deemed to have been unanimously adopted by a meeting of the Board of Directors duly convened and held.

52. Quorum

(a) Until otherwise unanimously decided by the Board of Directors, a quorum at a meeting of the Board of Directors shall be constituted by the presence, in person, or by telephone conference of a majority of the Directors then in office who are lawfully entitled to participate in the meeting (as conclusively determined by the Chairman of the Board of Directors).

(b) If within an hour from the time appointed for the meeting a quorum is not present, the meeting shall stand adjourned to such time, date and place as the Chairman may determine, provided that not less than two (2) days' written notice shall have been provided to each of the Directors of such meeting. No business shall be transacted at any adjourned meeting except business that might lawfully have been transacted at the meeting as originally called. At such adjourned meeting, any two (2) members present in person shall constitute a quorum.

(c) Notwithstanding anything to the contrary in this Article 52, the quorum for purposes of discussing and resolving upon the termination or suspension of the services of the Internal Auditor of the Company shall be a majority of the Directors then in office.

53. Chairman of the Board of Directors

The Board of Directors may from time to time elect one of its members to be the Chairman of the Board of Directors, remove such Chairman from office and appoint another in its place. The Chairman of the Board of Directors shall preside at every meeting of the Board of Directors, but if there is no such Chairman, or if at any meeting he is not present within fifteen (15) minutes of the time fixed for the meeting, or if the appointed Chairman is unwilling to take the chair, the Directors present shall choose one of their number to be the chairman of such meeting. The Chief Executive

Officer of the Company shall not serve as the Chairman of the Board of Directors, and the Chairman of the Board of Directors shall not be granted authorities of the Chief Executive Officer, unless such appointment, or grant:10pt;font-weight:normal;font-style:normal;text-transform:none;font-variant: normal;">•

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

Negative or uncertain global conditions could prevent us from accurately forecasting demand for our products which could adversely affect our results of operations. In addition, due to generally lower labor and materials costs in the Asian markets in which we currently operate, a shift in the mix of orders from our customers away from such Asian markets could adversely affect our operating margins.

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

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

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

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

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

We face intense competition from subsystem and component manufacturers in the industries we serve. Increased competition has in the past resulted, and could in the future result, in price reductions, reduced gross margins or loss of market share, any of which would harm our operating results. We are subject to significant pricing pressure as we attempt to maintain and increase market share with our existing customers. Competitors may offer reduced prices or introduce new products for the markets currently served by our products. These products may have better performance, lower prices and achieve broader market acceptance than our products. Further, OEMs typically own the design rights to their products and may provide these designs to other subsystem manufacturers. If our competitors obtain proprietary rights to these designs such that we are unable to obtain the designs necessary to manufacture products for our OEM customers, our business, financial condition and operating results could be adversely affected.

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

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

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

Our business may be adversely affected by information technology, disruptions, including impairing our ability to effectively deliver our products, which could cause us to lose customers and harm our results of operations.

The manufacture and delivery of our products depends on the continuing operation of our technology infrastructure and systems, particularly our data center located in California. Any damage to or failure of our systems could result in interruptions in our ability to manufacture or deliver products on agreed upon lead times, or at all, on a local or worldwide basis. Interruptions could reduce our sales and profits, and our reputation could be damaged if people believe our systems are unreliable. Our systems and operations are vulnerable to damage or interruption from earthquakes, terrorist attacks, floods, fires, power loss, hardware or software failures, telecommunications failures, cybersecurity attacks, and similar events. The critical components of the system are not redundant and we currently do not have a backup data center. Accordingly, the risk associated with such events beyond our control is heightened.

Cybersecurity attacks, in particular, are evolving and include, but are not limited to, malicious software, attempts to gain unauthorized access to data, and other electronic security breaches that could lead to disruptions in systems, unauthorized release of confidential or otherwise protected information and corruption of data (our own or that of third parties). Although we have adopted certain measures to mitigate potential risks to our systems from information technology-related disruptions, given the unpredictability of the timing, nature and scope of such

---

disruptions, we could potentially be subject to production downtimes, operational delays, other detrimental impacts on our operations or ability to provide products and services to our customers, the compromising of confidential or otherwise protected information, misappropriation, destruction or corruption of data, security breaches, other manipulation or improper use of our systems or networks, financial losses from remedial actions, loss of business or potential liability, and/or damage to our reputation, any of which could have a material adverse effect on our business, financial condition, results of operations and cash flows.

If we experience frequent or persistent system failures, the attractiveness of our products to customers could be permanently harmed. Any steps we take to increase the reliability and redundancy of our systems may be expensive, reduce our operating margin and may not be successful in reducing the frequency or duration of unscheduled interruptions.

Acquisitions could result in operating and integration difficulties, dilution, margin deterioration, diversion of management's attention, and other consequences that may adversely impact our business and results of operations.

We have made, and may in the future make, acquisitions of, or significant investments in, businesses that offer complementary products, services, technologies or market access. We expect that management will evaluate potential strategic transactions regularly with its advisors and our board of directors in the ordinary course of business. We may not be successful in negotiating the terms of potential acquisitions or financing potential acquisitions, and our due diligence may fail to identify all of the problems, liabilities or other challenges associated with an acquired business, product or technology, including issues related to intellectual property, product quality or product architecture, regulatory compliance practices, revenue recognition or other accounting practices or employee or customer retention issues. In addition, we may not be successful in effectively integrating the acquired business, product or technology into our existing business and operations. The areas where we face risks include:

- Management of the larger, more complex, combined business, including integrating supply and distribution channels, computer and accounting systems, and other aspects of operations;
- Deterioration of gross margins due to the acquisition of the same customer base resulting in reduced pricing leverage;
- Integration of the capabilities of the acquired businesses while maintaining focus on providing consistently high quality products;
- Incorporation of different financial and reporting controls, processes, systems and technologies into our existing business environment;
- Unknown liabilities and unforeseen expenses, delays or regulatory conditions associated with the acquisitions for which we do not have recourse under their respective agreements;
- Performance shortfalls as a result of the diversion of management's attention from the company's operations;
- Cultural challenges associated with integrating employees from the acquired business into our organization, and retention of employees from the businesses we acquire;
- Retention of customers and partners of acquired business; and/or
- Difficulties associated with the transition of customers into our existing business.

Our failure to address these risks or other problems encountered in connection with our past or future acquisitions and investments could cause us to fail to realize the anticipated benefits of such acquisitions or investments, incur unanticipated liabilities and substantial costs, and materially harm our business generally.

Our acquisitions could also result in dilutive issuances of our equity securities, the incurrence of debt, contingent liabilities, or amortization expenses, impairment charges and restructuring charges, any of which could harm our financial condition. Also, the anticipated benefits or value of our acquisitions or investments may not materialize. Even if an acquisition or other investment is not completed, we may divert significant management time and effort and financial cost in evaluating such acquisition or investment, which could have an adverse effect on our results of operations. Furthermore, due to limited liquidity in the credit market and our existing leverage, the financing of any such acquisition may be difficult to obtain, and the terms of such financing may not be favorable.

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

We had $85.2 million of goodwill recorded on our consolidated balance sheet as of December 30, 2016. Goodwill represents the excess of cost over the fair market value of net tangible and finite lived, identifiable intangible assets acquired in business combinations. If our market capitalization drops significantly below the amount of net equity recorded on our balance sheet, it could indicate a decline in our value and would require us to further evaluate whether our goodwill has been impaired. During the fourth quarter of each year, we perform an annual review of our goodwill to determine if it has become impaired, in which case we would write down the impaired portion of our goodwill. We also evaluate goodwill for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If we were required to write down all or a significant part of our goodwill, our financial results and net worth could be materially adversely affected.

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

Our business is largely dependent upon our design, engineering, manufacturing and testing know-how. We rely on a combination of trade secrets and contractual confidentiality provisions and, to a much lesser extent, patents, copyrights and trademarks to protect our proprietary rights. Confidentiality agreements with our employees and others may not adequately prevent disclosure of trade secrets and other proprietary information. Accordingly, our intellectual property position is more vulnerable than it would be if it were protected primarily by patents. If we fail to protect our proprietary rights successfully, our competitive position could suffer, which could harm our operating results. We may be required to spend significant resources to monitor and protect our proprietary rights, and, in the event infringement or breach of our proprietary rights occurs, our competitive position in the market may be harmed. In addition, competitors may design around our technology or develop competing technologies and know-how. Further, since our customers generally own the designs and other intellectual property to the products we manufacture, we cannot prevent them from licensing such designs and other intellectual property to our competitors for the manufacture of such products.

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

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

significant damages or injunctions against the development, manufacture and sale of certain of our products if any such claims prove successful. We also rely on design specifications and other intellectual property of our customers in the manufacture of products for such customers. While our customer agreements generally provide for indemnification of us by our customers if we are subjected to litigation for third-party claims of infringement of such customer intellectual property, such indemnification provisions may not be sufficient to fully protect us from such claims, or our customers may breach such indemnification obligations to us, which could result in costly litigation to defend against such claims or enforce our contractual rights to such indemnification.

22

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

Rapid technological innovation in the markets we serve requires us to anticipate and respond quickly to evolving customer requirements and could render our current product offerings and technology obsolete. Technological innovations are inherently complex. We must devote resources to technology development in order to keep pace with such rapidly evolving technologies. We believe that our future success will depend upon our ability to design, engineer and manufacture products that meet the changing needs of our customers. This requires that we successfully anticipate and respond to technological changes in design, engineering and manufacturing processes in a cost-effective and timely manner. If we are unable to integrate new technical specifications into competitive product designs, develop the technical capabilities necessary to manufacture new products or make necessary modifications or enhancements to existing products, our business prospects could be harmed.

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

- design innovative and performance-enhancing features that differentiate our products from those of our competitors;
- identify emerging technological trends in the industries we serve, including new standards for our products;
- accurately identify and design new products to meet market needs;
- collaborate with OEMs to design and develop products on a timely and cost-effective basis;
- ramp-up production of new products, especially new subsystems, in a timely manner and with acceptable yields at acceptable costs;
- successfully manage development production cycles; and
- respond effectively to technological changes or product announcements by others.

If we are unsuccessful in keeping pace with technological developments for the reasons above or other reasons, our business prospects, results of operations and financial condition could be materially and adversely affected.

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

New capital equipment typically has a lifespan of several years, and OEMs frequently specify which systems, subsystems, components and instruments are to be used in their equipment. Once a specific system, subsystem, component or instrument is incorporated into a piece of capital equipment, it will likely continue to be incorporated into that piece of equipment for at least several months before the OEM would be in a position to switch to the product of another supplier. Accordingly, it is important that our products are designed into the new capital equipment of OEMs, which we refer to as a design win, in order to retain our competitive position with existing customers and to obtain new customers.

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

Defects in our products could damage our reputation, decrease market acceptance of our products, cause the unintended release of hazardous materials, result in potentially costly litigation, indemnification liability or unexpected warranty claims.

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

- cause delays in product introductions and shipments for us or our customers;
- result in increased costs and diversion of development resources;
- cause us to incur increased charges due to unusable inventory;
- require design modifications;
- result in liability for the unintended release of hazardous materials or other damages to our or our customers' property;
- create claims for rework, replacement and/or damages under our contracts with customers, as well as indemnification claims from customers;
- decrease market acceptance of, or customer satisfaction with, our products, which could result in decreased sales and product returns; or
- result in lower yields for semiconductor manufacturers.

If any of our products contain defects or have reliability, quality or compatibility problems, our reputation might be damaged and customers might be reluctant to buy our products. We may also face a higher rate of product defects as we increase our production levels. Product defects could result in warranty and indemnification liability, the loss of existing customers or impair our ability to attract new customers. In addition, we may not find defects or failures in our products until after they are installed in a manufacturer's fabrication facility. We may have to invest significant capital and other resources to correct these problems. Our current or potential customers also might seek to recover from us any losses resulting from defects or failures in our products. Hazardous materials flow through and are controlled by our products and an unintended release of these materials could result in serious injury or death. Liability claims could require us to spend significant time and money in litigation or pay significant damages or indemnification claims.

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

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

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

Management transition also creates uncertainties and could harm our business. Disruption to our organization as a result of executive management transition could divert the executive management's attention away from certain key areas of our business and have a material adverse effect on our business, financial condition and results of operations.

The challenges of employee retention has also increased during the integration process with the companies we have acquired because of the necessity of combining personnel with varied business backgrounds and combining different corporate cultures and objectives, and several acquired employees, including members of the acquired companies' senior management, have left our company. The process of integrating operations and making such adjustments could cause an interruption of, or loss of momentum in, the activities of one or more of our businesses and the loss of key personnel. Employee uncertainty, lack of focus or turnover during the integration process may also disrupt our businesses.

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

Effective internal controls are necessary for us to provide reliable financial reports and prevent fraud. In addition, Section 404 of the Sarbanes-Oxley Act of 2002 requires us and our independent registered public accounting firm to evaluate and report on our internal control over financial reporting. The process of designing, implementing, maintaining and updating our internal controls and complying with Section 404 is expensive and time consuming, and requires significant attention from management and company resources. In addition, following the expiration of applicable grace periods, we are required to evaluate and report on the internal controls of the companies we acquire, and the attestation report we are required to obtain from our independent registered public accounting firm must include the internal control over financial reporting of the companies we acquire. Integrating acquired companies' internal control frameworks into the Company and upgrading acquired companies' controls to comply with the Sarbanes-Oxley Act has required and will require substantial resources, and we cannot assure you that we will be able to successfully or effectively maintain adequate controls over our financial processes at our acquired companies, or for our consolidated business. In addition, even though we have concluded, and our independent registered public accounting firm has concurred, that our internal control over financial reporting provides reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles as of December 30, 2016, because of its inherent limitations may not be effective as of future periods. Failure to maintain existing or implement new or improved controls, or difficulties encountered in their implementation, could harm our results of operations or cause us to fail to meet our reporting obligations. If we or our independent registered public accounting firm discover a material weakness, the disclosure of that fact, even if quickly remedied, could reduce the market's confidence in our financial statements and harm our stock price.

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

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

The Company uses derivative instruments, such as foreign currency forward contracts, to hedge certain exposures to fluctuations in foreign currency exchange rates. The use of such hedging activities may not offset any, or more than a portion, of the adverse financial effects of unfavorable movements in foreign exchange rates over the limited time the hedges are in place.

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

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

25

Our business is subject to the risks of earthquakes, fire, power outages, floods, and other catastrophic events, and to interruption by man-made disruptions, such as terrorism.

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

In addition, disruption in supply resulting from natural disasters or other causalities or catastrophic events, such as earthquakes, severe weather such as storms or floods, fires, labor disruptions, power outages, terrorist attacks or political unrest, may result in certain of our suppliers being unable to deliver sufficient quantities of components or raw materials at all or in a timely manner, disruptions in our operations or disruptions in our customers' operations. For example, in 2011, the northern region of Japan experienced a severe earthquake followed by a tsunami. These geological events caused significant damage in that region and adversely affected Japan's infrastructure and economy. Some of our suppliers are located in Japan and they experienced, and may experience in the future, shutdowns or disruptions as a result of these types of events, and their operations may be negatively impacted by these events. Many of our customers and suppliers are also located in California, and may be subject to the same risk of seismic activity as described for us above.

To the extent that natural disasters or other calamities or causalities should result in delays or cancellations of customer orders, or the delay in the manufacture or shipment of our products or services, our business, financial condition and operating results would be adversely affected.

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

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

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

The market for our stock is subject to significant fluctuation.

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

- quarterly variations in our operating results;
- our ability to successfully introduce new products and manage new product transitions;
- changes in revenue or earnings estimates or publication of research reports by analysts;
- speculation in the press or investment community;

- strategic actions by us, our customers or our competitors, such as acquisitions or restructurings;
- announcements relating to any of our key customers, significant suppliers or the semiconductor manufacturing and capital equipment industry generally;
- general market conditions;
- the effects of war and terrorist attacks; and
- domestic and international economic or political factors unrelated to our performance.

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

New regulations related to conflict minerals could adversely impact our business.

The Dodd-Frank Wall Street Reform and Consumer Protection Act contains provisions to improve transparency and accountability concerning the supply of certain minerals, known as conflict minerals, originating from the Democratic Republic of Congo (DRC) and adjoining countries. As a result, in August 2012 the SEC adopted annual disclosure and reporting requirements for those companies who use conflict minerals mined from the DRC and adjoining countries in their products. These requirements require us to perform on-going due diligence efforts on our supply chain and require public disclosure of the nature and results of these efforts. We filed our most recent conflict minerals report on Form SD on May 27, 2016 reporting that we could not yet determine whether the conflict minerals we source were, directly or indirectly, used to finance or benefit armed groups in the Covered Countries. There have been and there will be costs associated with complying with these disclosure requirements to determine the sources of conflict minerals used in our products and other potential changes to products, processes or sources of supply as a consequence of such verification activities. Complying with these rules could adversely affect the sourcing, supply and pricing of materials used in our products and result in substantial additional costs. As there may be only a limited number of suppliers offering “conflict free” conflict minerals, we cannot be sure that we will be able to obtain necessary conflict minerals from such suppliers in sufficient quantities or at competitive prices. Also, we may face reputational challenges if we determine that certain of our products contain minerals not determined to be conflict free or if we are unable to sufficiently verify the origins for all conflict minerals used in our products through the procedures we may implement. In addition, if we are unable to comply with these rules, we could be subject to enforcement actions by the Securities and Exchange Commission and liability under the Securities Exchange Act of 1934, as amended, which could result in material adverse consequences to our business, as well as significant fines and penalties.

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

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

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

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

27

Item 1B. Unresolved Staff Comments
None.

Item 2. Properties
Our headquarters is located in a 108,000 square foot facility in Hayward, California. This is our principal administrative, sales and support, engineering and technology development and manufacturing facility. This lease expires in 2022. We also have manufacturing and engineering facilities in South San Francisco and Fremont, California, and Austin, Texas. In South San Francisco we lease an aggregate of approximately 124,000 square feet under several leases which expire in 2018. In Fremont, we lease approximately 9,000 square feet under a lease that expires in 2018. As a result of the acquisition of Marchi, also located in Hayward, California, we lease approximately 22,000 square feet under a lease that expires in 2020. We also have manufacturing facilities in Chandler, Arizona; Shanghai, China; Singapore; Cebu, Philippines and Liberec, Czech Republic. In Arizona, we lease approximately 120,000 square feet under leases that expire in 2017 and 2022. In Austin, we lease an aggregate of approximately 56,000 square feet under leases that expire in 2021. Approximately 14,000 square feet in Austin is a clean room manufacturing facility. In Shanghai, we lease approximately 136,000 square feet of commercial space under two leases that expire in 2017 and 2019. Approximately 37,000 square feet of this space is a clean room facility. In Singapore, we lease approximately 88,000 square feet under two separate leases that expire in 2017 and 2023 with extension provisions. In the Philippines, we lease approximately 16,000 square feet under three separate leases that expire in 2017 and 2019. With the acquisition of Miconex in the Czech Republic, we have approximately 74,000 square feet of manufacturing facilities under two separate leases that expire in 2023.

The table below lists our properties as of March 15, 2017:

Location	Principal Use	Square Footage	Ownership	
Hayward, California	Headquarters, manufacturing, sales, engineering, technology development	131,000	Leased	
South San Francisco, California	Manufacturing, engineering	124,000	Leased	(1)
Fremont, California	Manufacturing, engineering	9,000	Leased	
Austin, Texas	Manufacturing, engineering	56,000	Leased	
Chandler, Arizona	Manufacturing	120,000	Leased	
Cebu, Philippines	Manufacturing	16,000	Leased	
Singapore	Manufacturing, customer support	88,000	Leased	
Shanghai, China	Manufacturing	136,000	Leased	
Czech Republic	Manufacturing, customer support	74,000	Leased	

(1) We lease this facility from one of our directors. We incurred rent expense resulting from the lease of this facility of $0.3 million for each of fiscal years 2016 and 2015.

Item 3. Legal Proceedings
From time to time, we are subject to various legal proceedings and claims, either asserted or unasserted, that arise in the ordinary course of business. Although the outcome of the various legal proceedings and claims cannot be predicted with certainty, we have not had a history of outcomes to date that have been material to our statement of operations and do not believe that any of these proceedings or other claims will have a material adverse effect on our consolidated financial condition or results of operations.

Item 4. Mine Safety Disclosures

Not applicable.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters, and Issuer Purchases of Equity Securities

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

	High	Low
Fiscal year 2015		
First quarter	$10.29	$7.17
Second quarter	$7.51	$5.26
Third quarter	$8.16	$5.29
Fourth quarter	$5.91	$4.60
Fiscal year 2016		
First quarter	$5.72	$4.50
Second quarter	$6.07	$4.95
Third quarter	$7.50	$5.40
Fourth quarter	$10.65	$6.79

To date, we have not declared or paid cash dividends to our stockholders and we do not intend to do so for the foreseeable future in order to retain earnings for use in our business. Our credit facility also limits our ability to pay dividends. As of February 24, 2017, we had five stockholders of record.

Recent Sales of Unregistered Sales of Equity Securities

None.

Purchase of Equity Securities by the Issuer and Affiliated Purchasers

None.

Item 6. Selected Consolidated Financial Data

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

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

	Years Ended				
	12/30/2016	12/25/2015**	12/26/2014	12/27/2013	12/28/2012*
Consolidated Statements of Operations Data:					
Sales	$ 562,759	$ 469,103	$ 513,957	$ 444,022	$ 403,430
Cost of goods sold	475,976	398,073	440,824	376,693	347,642
Gross profit	86,783	71,030	73,133	67,329	55,788
Operating expenses, excluding acquisition costs	64,392	64,605	54,949	51,421	45,012
Acquisition costs	—	584	—	—	2,431
Income from operations	22,391	5,841	18,184	15,908	8,345
Interest expense and other, net	(3,444)	(2,234)	(1,854)	(3,309)	(1,648)
Income before income taxes	18,947	3,607	16,330	12,599	6,697
Income tax provision	8,896	14,339	4,973	2,175	1,544
Net income (loss)	$ 10,051	$ (10,732)	$ 11,357	$ 10,424	$ 5,153
Net income (loss) per share:					
Basic	$ 0.31	$ (0.34)	$ 0.39	$ 0.37	$ 0.20
Diluted	$ 0.30	$ (0.34)	$ 0.38	$ 0.36	$ 0.20
Shares used in computation:					
Basic	32,632	31,564	29,301	28,346	25,698
Diluted	33,150	31,564	29,936	29,037	26,261

Consolidated Balance Sheet Data (in thousands):

	12/30/2016	12/25/2015**	12/26/2014	12/27/2013	12/28/2012*
Cash & cash equivalents	$ 52,465	$ 50,103	$ 78,997	$ 60,415	$ 54,311
Working capital	136,389	125,428	142,279	100,415	85,883
Total assets	380,697	336,153	296,142	292,543	265,929
Bank borrowings and long-term debt	67,750	75,539	48,155	55,126	75,640
Short-and long-term rent obligations	3,291	3,769	2,948	3,302	2,818
Total stockholders’ equity	216,131	200,943	188,552	171,929	156,780

* Includes the results of operations of AIT for the period July 3, 2012 through December 28, 2012.

**

Includes the results of operations of Marchi and Miconex for the period February 5, 2015 through December 25, 2015 and for the period from July 31, 2015 to December 25, 2015, respectively. See Note 4 to the Notes to Consolidated Financial Statements for further information.

30

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations
This section and other parts of this Annual Report on Form 10-K contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements involve risks and uncertainties. Forward-looking statements can also be identified by words such as "anticipate," "believe," "estimate," "expect," "intend," "m "might," "plan," "project," "will," "would," "should," "could," "can," "predict," "potential," "continue," "objective," and simil Forward-looking statements are not guarantees of future performance and our actual results may differ significantly from the results discussed in the forward-looking statements. Factors that might cause such differences include, but are not limited to, those discussed in "Item 1A — Risk Factors" above. The following discussion should be read in conjunction with the consolidated financial statement and notes thereto included in Item 8 of this report. We assume no obligation to revise or update any forward-looking statements for any reason, except as required by law.

Overview

We are a global leader in the design, engineering, and manufacture of production tools, modules and subsystems for the semiconductor capital equipment industry and industry segments with similar requirements including flat panel display, consumer and medical. We focus on providing specialized engineering and manufacturing solutions for these applications. We enable our customers to realize lower manufacturing costs and reduced design-to-delivery cycle times while maintaining high quality standards.

With our acquisition of Marchi on February 5, 2015, we expanded our capabilities to include the design and manufacture of application-specific thermal solutions to solve semiconductor equipment customers' temperature management challenges. The acquisition of Marchi further expanded our footprint with our pre-existing customers and brings us closer to the customers in the design stage of new products and next generation equipment. With our acquisition of Miconex on July 31, 2015, we further expanded our capabilities to include manufacturing services in advanced precision milling and welding of plastics for the semiconductor industry.

In November 2016, we approved a plan to dispose of a portion of our 3D printing business in order to focus on producing product tools for the semiconductor capital equipment industry. We are actively seeking a buyer for a portion of our 3D printing business and we expect to complete the sale in 2017.

Our sales were $562.8 million for fiscal year 2016, $469.1 million for fiscal year 2015, and $514.0 million for fiscal year 2014. Our three largest customers were Applied Materials, Inc., Lam Research Corporation and ASM International, Inc., each of which accounted for more than 10% of our total sales in fiscal year 2016, 2015 and 2014, with the exception of our sales to ASM International, Inc. in 2016 and 2015. As a group, these customers accounted for 86.4%, 84.3% and 75.7% of our sales for fiscal years 2016, 2015 and 2014, respectively.

Results of Operations

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

	Year Ended					
	December 30, 2016		December 25, 2015		December 26, 2014	
Sales	100.0	%	100.0	%	100.0	%
Cost of goods sold	84.6		84.9		85.8	
Gross profit	15.4		15.1		14.2	
Operating expenses:						

Research and development	1.8	2.0	1.4
Sales and marketing	2.1	2.5	2.0
General and administrative	7.6	9.3	7.3
Total operating expenses	11.5	13.8	10.7
Income from operations	3.9	1.3	3.5
Interest and other income (expense), net	(0.6)	(0.5)	(0.3)
Income before provision for income taxes	3.3	0.8	3.2
Income tax provision	1.6	3.1	1.0
Net income (loss)	1.7 %	(2.3)%	2.2 %

31

Fiscal Year 2016 Compared With Fiscal Year 2015

Sales

Sales for fiscal year 2016 increased $93.7 million, or 20.0% to $562.8 million from $469.1 million for fiscal year 2015. The increase in sales for the fiscal year ended 2016 when compared to the same period of 2015 reflects an increase in semiconductor sales of $75.1 million and an increase in non-semiconductor sales of $18.6 million. The increase in overall sales for fiscal year 2016 compared to the same period in fiscal year 2015 was due primarily to an increase in the volume of products shipped, which was attributable to an increase in customer demand from 2015 levels. On a geographic basis, sales in the U.S. decreased by $15.1 million to $292.3 million, or 52.0% of sales, for the year ended December 30, 2016 as compared to $307.4 million, or 65.5% of sales for the same period of 2015. Foreign sales increased by $108.7 million to $270.4 million, or 48.0% of sales, for the year ended December 30, 2016 as compared to $161.7 million, or 34.5% of sales, for the same period of 2015. The increase in foreign sales is due primarily to the full year of operations of Miconex in fiscal 2016 and the continuing migration of certain business with a U.S. customer from our U.S. operations to our Singapore location.

Gross Profit

Gross profit for fiscal year 2016 increased to $86.8 million or 15.4% of sales, from $71.0 million, or 15.1% of sales, for fiscal year 2015. Our gross margin percentage and absolute dollars of gross profit increased in fiscal year 2016 from the comparable period in 2015 due to higher sales volume, a sales mix which included higher margin products and certain improvements in operational efficiencies at our manufacturing locations in the U.S., which typically deliver lower margins due to higher labor and overhead costs.

Research and Development Expense

Research and development expense consists primarily of activities related to new component testing and evaluation, test equipment and fixture development, product design, and other product development activities. Research and development expense for fiscal year 2016 was $9.9 million or 1.8% of sales, compared to $9.6 million, or 2.0% of sales, for fiscal year 2015. The increase in research and development expense in absolute dollars was due primarily to the full year inclusion of Miconex and Marchi’s research and development activities in 2016.

Sales and Marketing Expense

Sales and marketing expense consists primarily of salaries and commissions paid to our sales and service employees, salaries paid to our engineers who work with the sales and service employees to help determine the components and configuration requirements for new products and other costs related to the sales of our products. Sales and marketing expense increased approximately $0.1 million, or 0.6%, to $11.6 million, or 2.1% of sales, compared to $11.5 million, or 2.5% of sales, in the comparable period of 2015.

General and Administrative Expense

General and administrative expense consists primarily of salaries and overhead associated with our administrative staff and professional fees. General and administrative expense decreased $1.2 million, or 2.7%, to $42.9 million, or 7.6% of sales, for fiscal year 2016 compared to $44.1 million, or 9.3% of sales, for fiscal year 2015. The decrease in absolute dollars was primarily due to a $2.4 million payment to our former CEO in the first quarter of 2015 upon his retirement and a $0.5 million write off of the tradename intangible we acquired from AIT in the fourth quarter of

2015, offset by an increase of $0.8 million due to the full year inclusion of Marchi and Miconex in 2016 and by an $0.8 million payment made to our former CFO upon his retirement on July 29, 2016.

Interest and Other Income (Expense), net

Interest and other income (expense) for fiscal year 2016 was $(3.4) million compared to $(2.2) million for fiscal year 2015. The increase in net expense was primarily due to an increase in the change in fair value of the Miconex contingent earn-out liability of $1.9 million, offset by a decrease in interest expense of $0.4 million resulting from the overall decrease in outstanding debt in fiscal year 2016 and of $0.3 million grants received from the Singapore Economic Development Board.

Income Tax Provision

Income tax expense was $8.9 million for fiscal year 2016 compared to $14.3 million for fiscal year 2015. Our effective tax rate for fiscal year 2016 was 46.9% compared to 397.5% for fiscal year 2015. The change in respective rates reflects, primarily, a charge in the fourth quarter of fiscal 2015 related to recording a full valuation allowance on our U.S. federal and state net deferred tax assets. Our effective tax rate was higher than the statutory rates for fiscal year 2016 primarily due to the geographic distribution of our worldwide earnings in foreign jurisdictions with lower tax rates as well as the impact of losses in jurisdictions with full federal and state valuation allowances.

For the year ended December 30, 2016, the Company concluded that a full valuation allowance against its U.S. federal and state deferred tax assets continues to be necessary. The total U.S. federal and state valuation allowance as of December 30, 2016 was $23.6 million.

For the year ended December 30, 2016, the Company concluded that a full valuation allowance against one of its Singapore subsidiaries' deferred tax assets continues to be necessary. The total valuation allowance of the Singapore loss entity as of December 30, 2016 was $0.2 million.

Our ability to realize deferred tax assets depends on our ability to generate sufficient taxable income within the carryback or carry forward periods. In assessing our future taxable income, we have considered all sources of future taxable income available to realize our deferred tax assets, including the taxable income from future reversal of existing temporary differences, carry forwards, taxable income in carryback years and tax-planning strategies. If changes occur in the assumptions underlying our tax planning strategies or in the scheduling of the reversal of our deferred tax liabilities, the valuation allowance may need to be adjusted in the future.

For the year ended December 30, 2016, we determined that a portion of the current year earnings of one of our China subsidiaries will be remitted in the future to one of our foreign subsidiaries outside of mainland China and, accordingly, we provided for the related foreign withholding taxes in our consolidated financial statements. For the year ended December 30, 2016, we also determined that a portion of the current year earnings of one of our Singapore subsidiaries will be remitted in the future to the US. If we change our intent to reinvest our undistributed foreign earnings indefinitely or if a greater amount of undistributed earnings are needed than the previously anticipated remaining unremitted foreign earnings, we could be required to accrue or pay U.S. taxes on some or all of these undistributed earnings.

Fiscal Year 2015 Compared With Fiscal Year 2014

Sales

Sales for fiscal year 2015 decreased $44.9 million, or 8.7% to $469.1 million from $514.0 million for fiscal year 2014. The decrease in sales for the fiscal year ended 2015 when compared to the same period of 2014 includes a decrease of $54.8 million in non-semiconductor sales attributable in part to the GTAT bankruptcy in 2014 and in part to ISI's insourcing the manufacturing of its products in the first quarter of 2015. The decrease in non-semiconductor sales was

offset by an increase in semiconductor sales of $10.0 million due primarily to the acquisitions of Marchi and Miconex in 2015. On a geographic basis, sales in the U.S. decreased by $54.2 million to $307.4 million, or 65.5% of sales, for the year ended December 25, 2015 as compared to $361.7 million, or 70.4% of sales for the same period of 2014. Foreign sales increased by $9.4 million to $161.7 million, or 34.5% of sales, for the year ended December 25, 2015 as compared to $152.3 million, or 29.6% of sales, for the same period of 2014. The increase in foreign sales is due primarily to the addition of the operations of Miconex in fiscal 2015 and to the migration of certain business with a U.S. customer from our U.S. operations to our Singapore location.

33

Gross Profit

Gross profit for fiscal year 2015 decreased to $71.0 million or 15.1% of sales, from $73.1 million, or 14.2% of sales, for fiscal year 2014. Our gross margin percentage increased in fiscal 2015 from the comparable period in 2014 due primarily to the declaration of bankruptcy of GTAT whereby the cost of sales associated with the goods shipped to GTAT during the third quarter of fiscal 2014 did not have corresponding revenues and the on-hand and non-cancelable inventory commitments related to this customer of $4.6 million was charged. Gross margins for 2015 also increased in 2015 when compared to 2014 due to the acquisitions of Marchi and Miconex. The decrease in absolute dollars of gross profit when comparing fiscal year 2015 with 2014 is primarily due to lower sales volume.

Research and Development Expense

Research and development expense for fiscal year 2015 was $9.6 million or 2.0% of sales, compared to $7.1 million, or 1.4% of sales, for fiscal year 2014. The increase in research and development expense in absolute dollars was due primarily to the inclusion of Miconex and Marchi's research and development activities in 2015 and to a lesser degree, to an increase in headcount.

Sales and Marketing Expense

Sales and marketing expense increased $1.1 million, or 10.2%, to $11.5 million, or 2.5% of sales, compared to $10.4 million, or 2.0% of sales, in the comparable period of 2014. The increase in the sales and marketing expense was primarily due to an increase in headcount and related payroll expenses as well as to the inclusion of Marchi sales and marketing activities in 2015.

General and Administrative Expense

General and administrative expense increased $6.1 million, or 16.2%, to $43.5 million, or 9.3% of sales, for fiscal year 2015 compared to $37.5 million, or 7.3% of sales, for fiscal year 2014. The increase in absolute dollars was primarily due to a $2.4 million payment to our former CEO in the first quarter of 2015 upon his retirement, $2.9 million amortization of finite-lived intangibles acquired in 2015 as a result of the acquisitions of Marchi and Miconex and $2.9 million general and administrative expense of Marchi and Miconex included in fiscal year 2015 primarily related to headcount and related payroll expense. These increases were offset by a decrease of $0.9 million in share-based compensation expense due to the cancellation of the unvested restricted stock units of our former CEO upon his retirement on January 19, 2015 and $1.6 million decrease in the amortization of finite-lived intangibles acquired in 2012 through our acquisition of AIT. We amortize AIT's customer relationships and tradename using an accelerated method over the estimated economic life of these assets. In the fourth quarter of 2015, we wrote off the remaining $0.5 million of the tradename intangible we acquired from AIT as we no longer believe the AIT tradename has value to the Company.

Interest and Other Income (Expense), net

Interest and other income (expense), net for fiscal year 2015 was $(2.2) million compared to $(1.9) million for fiscal year 2014. The increase in net expense was primarily due to the increase in outstanding debt in fiscal year 2015 as a result of the acquisition of Marchi in the first quarter of fiscal 2015.

Income Tax Provision

Income tax expense was $14.3 million for fiscal year 2015 compared to $5.0 million for fiscal year 2014. Our effective tax rate for fiscal year 2015 was 397.5% compared to 30.5% for fiscal year 2014. The change in respective

rates reflects, primarily, a charge in the fourth quarter of fiscal 2015 related to recording a full valuation allowance on our U.S. federal and state net deferred tax assets. Our effective tax rate was higher than the statutory rates for fiscal year 2015 primarily due to the geographic distribution of our worldwide earnings in foreign jurisdictions with lower tax rates or tax holidays offset by the full valuation allowance against our U.S. federal and state net deferred tax assets. Our 2014 effective tax rate was lower than the statutory rates for fiscal year 2014 primarily due to the geographic distribution of our worldwide earnings in foreign jurisdictions with lower tax rates or tax holidays offset by a valuation allowance against our California and Oregon deferred tax assets.

34

During the quarter ended December 25, 2015, we determined that it was no longer more likely than not that we have the ability to project sufficient domestic taxable income necessary over the foreseeable future to realize our U.S. federal and state deferred tax assets. Therefore, during the quarter ended December 25, 2015, the Company concluded that a valuation allowance was required on its U.S. federal and remaining state deferred tax assets. The resulting charge to income tax expense was $15.6 million. The Company had a valuation allowance on its California and Oregon state net deferred tax assets in the amount of $2.8 million as of December 25, 2015. The total U.S. federal and state valuation allowance as of December 25, 2015 was $18.4 million.

During the quarter ended December 25, 2015, we finalized the restructuring of certain of our operations in China. This restructuring resulted in our ability to use certain net operating loss carryforwards, and, accordingly, we concluded that a previously accrued valuation allowance was no longer required, resulting in an income tax benefit of $2.1 million.

During the fourth quarter of fiscal 2015 we recorded a full valuation allowance on the deferred assets of one of our Singapore subsidiaries in the amount of $0.3 million.

Critical Accounting Policies, Significant Judgments and Estimates

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

Revenue Recognition

Our revenue for fiscal years 2016, 2015 and 2014 was highly concentrated in a small number of OEM customers in the semiconductor capital equipment, consumer, medical, energy, industrial, flat panel and research industries. Our standard arrangement for our customers includes a signed purchase order or contract, no right of return of delivered products and no customer acceptance provisions. Revenue from sales of products is recognized when:

- we enter into a legally binding arrangement with a customer;
- title transfers to the customer, which generally occurs upon shipment;
- customer payment is deemed fixed or determinable and free of contingencies or significant uncertainties; and
- collection is reasonably assured.

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

We assess collectability based on the creditworthiness of the customer and past transaction history. We perform on-going credit evaluations of, and do not require collateral from, our customers. We have not experienced significant collection losses in the past except for collection losses related to the bankruptcy of GTAT in fiscal 2014. A

significant change in the liquidity or financial position of any one customer could make it more difficult for us to assess collectability.

Inventory Valuation

We write down the carrying value of our inventory to net realizable value for estimated obsolescence or unmarketable inventory in an amount equal to the difference between the cost of inventory and its estimated realizable value based upon assumptions about future demand and market conditions. We assess the valuation of all inventories, including raw materials, work-in-process, finished goods and spare parts on a periodic basis.

Obsolete inventory or inventory in excess of our estimated usage is written down to its estimated market value less costs to sell, if less than its cost. The inventory write-downs are recorded as an inventory valuation allowance established on the basis of obsolete inventory or specific identified inventory in excess of established usage. Inherent in our estimates of demand and market value in determining inventory valuation are estimates related to economic trends, future demand for our products and technological obsolescence of our products. If actual demand and market conditions are less favorable than our projections, additional inventory write-downs may be required. If the inventory value is written down to its net realizable value, and subsequently there is an increased demand for the inventory at a higher value, the increased value of the inventory is not realized until the inventory is sold either as a component of a subsystem or as separate inventory. For fiscal years 2016, 2015 and 2014, we wrote down $2.3 million, $2.4 million, and $4.6 million, respectively, including $2.6 million of inventory written off as part of the GTAT bankruptcy in the third quarter of 2014.

Accounting for Income Taxes

The determination of our tax provision is highly dependent upon the geographic composition of worldwide earnings and tax regulations governing each region and is subject to judgments and estimates. Management carefully monitors the changes in many factors and adjusts the effective tax rate as required. The carrying value of our net deferred tax assets, which consist primarily of future tax deductions, assumes we will be able to generate sufficient future income to fully realize these deductions. In determining whether the realization of these deferred tax assets may be impaired, we make judgments with respect to whether we are likely to generate sufficient future taxable income to realize these assets. In order to reverse a valuation allowance, accounting principles generally accepted in the United States of America suggest that we review our recent cumulative income/loss as well as determine our ability to generate sufficient future taxable income to realize our net deferred tax assets. As of December 30, 2016, we maintained full valuation allowances on our U.S. federal and state deferred tax assets in the amount of $23.6 million as we believe it is more likely than not that these deferred tax assets will not be realized. During the quarter ended December 25, 2015, we finalized the restructuring of certain of our operations in China. This restructuring resulted in our ability to use certain net operating loss carryforwards, and, accordingly, we concluded that a previously accrued valuation allowance was no longer required, resulting in an income tax benefit of $2.1 million.

In addition, the calculation of tax liabilities involves significant judgment in estimating the impact of uncertainties in the application of complex tax laws. Resolution of these uncertainties in a manner inconsistent with our expectations could have a material impact on our results of operations and financial position. We believe we have adequately reserved for our uncertain tax positions, however, no assurance can be given that the final tax outcome of these matters will not be different than what we expect. We adjust these reserves in light of changing facts and circumstances, such as the closing of a tax audit or the refinement of an estimate. To the extent that the final tax outcome of these matters is different than the amounts recorded, such differences will impact the provision for income taxes in the period in which such determination is made. The provision for income taxes includes the impact of reserve provisions and changes to reserves that are considered appropriate, as well as the related net interest.

We file income tax returns in the U.S. federal jurisdiction, various states and foreign jurisdictions. Our 2013 through 2015 federal income tax returns are open to audit through the statute of limitations by the Internal Revenue Service. The Company’s 2012 through 2015 state income tax returns are open to audit by the California Franchise Tax Board.

The Company is also subject to examination in various other jurisdictions for various periods.

Business Combinations

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

Goodwill, Intangibles Assets, and Long-lived Assets

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

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

- Significant changes in the manner of our use of the acquired assets or the strategy of our overall business;
- Significant negative changes in revenue of specific products or services;
- Significant negative industry or economic trends;
- Significant decline in our stock price for a sustained period; and

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

Assets held for sale

Non-current assets, or disposal groups comprising assets and liabilities, that are expected to be recovered primarily through sale or distribution rather than through continuing use, are classified as held for sale. Immediately before classification as held for sale or distribution, the assets, or components of a disposal group, are measured at the lower of the carrying amount or fair value less costs to sell. Impairment losses on initial classification as held for sale and subsequent gains and losses on remeasurement are recognized in the statement of operations. Gains are not recognized in excess of any cumulative impairment loss. Once classified as held for sale, intangible assets and property, plant and equipment are no longer amortized or depreciated. The Company recognized a $0.7 million loss upon reclassification of held for sale assets of our 3D printing business in Singapore (UAMC) as of December 30, 2016. The loss was recorded in cost of goods in the statements of operations. Total assets of UAMC at the end of the reporting period were $1.6 million.

Equity Incentives to Employees

We issue restricted stock units to our employees and outside directors and provide our employees the right to purchase common stock under our employee stock purchase plan. Under current accounting guidance, stock-based

compensation cost is measured at the grant date based on the fair value of the award and is recognized as expense over the service (vesting) period. See Note 9 to the Notes to Consolidated Financial Statements for a detailed description.

Unaudited Quarterly Financial Results

The following table sets forth statement of operations data for the periods indicated. The information for each of these periods is unaudited and has been prepared on the same basis as our audited consolidated financial statements included herein and includes all adjustments, consisting only of normal recurring adjustments that we consider necessary for a fair presentation of our unaudited operations data for the periods presented. Historical results are not necessarily indicative of the results to be expected in the future (in thousands, except per share data):

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Fiscal Year (1)
2016					
Sales	$ 112,229	$ 129,831	$ 146,154	$ 174,545	$ 562,759
Gross profit	$ 14,570	$ 19,021	$ 23,491	$ 29,701	$ 86,783
Net income (loss)	$ (3,239)	$ 723	$ 2,614	$ 9,953	$ 10,051
Earnings (loss) per share — basic	$ (0.10)	$ 0.02	$ 0.08	$ 0.30	$ 0.31
Earnings (loss) per share — diluted	$ (0.10)	$ 0.02	$ 0.08	$ 0.30	$ 0.30
2015					
Sales	$ 125,318	$ 117,549	$ 122,816	$ 103,420	$ 469,103
Gross profit	$ 19,919	$ 18,822	$ 18,948	$ 13,341	$ 71,030
Net income (loss)	$ 1,173	$ 2,207	$ 1,676	$ (15,788)	$ (10,732)
Earnings (loss) per share — basic	$ 0.04	$ 0.07	$ 0.05	$ (0.49)	$ (0.34)
Earnings (loss) per share — diluted	$ 0.04	$ 0.07	$ 0.05	$ (0.49)	$ (0.34)

(1) Earnings per share is calculated independently each quarter and for the full year based upon their respective weighted average shares outstanding. Therefore, the sum of the quarterly earnings per share may not equal the annual earnings per share reported.

Liquidity and Capital Resources

We have the required capital principally to fund our working capital needs, satisfy our debt obligations, maintain our equipment and purchase new capital equipment. As of December 30, 2016, we had cash and cash equivalents of $52.5 million compared to $50.1 million as of December 25, 2015. The increase in our cash position during 2016 was primarily due to cash generated from operations, our principal source of liquidity as of December 30, 2016.

For the twelve months ended December 30, 2016, we generated cash from operating activities of $17.6 million, an increase of $16.7 million when compared to $0.9 million for fiscal 2015. Operating cash flows generated in the twelve months ended December 30, 2016 were from non-cash activities, including depreciation of equipment and leasehold improvements, amortization of intangible assets and debt issuance costs, excess tax benefit from stock-based compensation, stock-based compensation, loss from disposal of assets and change in the fair value of the contingent earn-out aggregating to $19.9 million. Operating cash flows were also generated by decreases in prepaid expenses and other and deferred tax assets, net and increases in accounts payable and accrued compensation of $1.7 million, $3.5 million, $31.7 million and $1.4 million, respectively. These were offset by increases in accounts receivable, inventory and other non-current assets of $15.8 million, $31.5 million and $0.1 million, respectively, and by the net decrease in income tax payable and other liabilities of $0.1 million and $3.4 million, respectively.

Cash generated from operating activities for fiscal year 2015 reflected a decrease of $29.4 million when compared to $30.4 million for fiscal 2014. Operating cash flows generated in the twelve months ended December 25, 2015, were

from non-cash activities, including depreciation of equipment and leasehold improvements, amortization of intangible assets, debt issuance costs, excess tax benefit from stock-based compensation and stock-based compensation aggregating to $15.5 million. Operating cash flows were also generated by decreases in accounts receivable, deferred tax assets net of deferred tax liabilities, and increases in accrued compensation and other liabilities of $5.8 million, $10.4 million, $0.8 million and $1.6 million, respectively. These were offset by changes in the fair value of a contingent earn-out of $0.4 million, increases in inventory, prepaid expenses and other non-current assets of $8.3 million and $1.0 million, respectively, and by decreases in accounts payable and income tax payable of $12.6 million and $0.1 million, respectively.

38

The net cash used in investing activities in fiscal year 2016 was $7.3 million and consisted mainly of purchases of equipment. Net cash used in investing activities for the twelve months ended December 25, 2015, was $55.2 million, consisting mainly of cash paid in connection with the acquisitions of Marchi and Miconex of $29.7 million and $15.6 million, respectively, and capital expenditures of $10.2 million, primarily attributable to the expansion of our facilities in the U.S. and in Singapore, offset by Miconex cash acquired of $0.2 million.

Net cash used in financing activities for the twelve months ended December 30, 2016, was $7.9 million, a decrease of $33.3 million when compared to net cash provided by financing activities of $25.4 million for the comparable period of 2015. The decrease was primarily due to proceeds from the new credit facility in 2015 offset by principal payments on bank borrowings related to the old facility. For the twelve months ended December 25, 2015, our net cash provided by financing activities was due primarily to cash proceeds from bank borrowings of $76.2 million from our new credit facility, from Miconex bank borrowings of $3.0 million and net proceeds of $2.4 million from the issuance of common stock related to our employee stock plans. These increases were offset by principal debt payments of $55.2 million related to the payoff of our old credit facility, payment of $0.6 million of debt issuance costs related to the new credit facility, $0.1 million of excess tax benefit from stock-based compensation and $0.3 million of employees' taxes paid upon vesting of restricted stock units.

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 state of the worldwide economy, our ability to meet our financial covenants with our credit facility, the cyclical expansion or contraction of the semiconductor capital equipment industry and the other industries we serve and capital expenditures required to meet possible increased demand for our products.

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

Beginning in 2013, we determined that a portion of the current year and future year earnings of one of our China subsidiaries may be remitted in the future to one of our foreign subsidiaries outside of mainland China and, accordingly, we provided for the related withholding taxes in our consolidated financial statements and no provisions for U.S. income taxes have been provided thereon. During the fiscal year ended December 30, 2016, we remitted a portion of the current year earnings of one of our Singapore subsidiaries to the U.S. If we change our intent to reinvest our undistributed foreign earnings indefinitely or if a greater amount of undistributed earnings are needed than the previously anticipated remaining unremitted foreign earnings, we could be required to accrue or pay U.S. taxes on some or all of these undistributed earnings. As of December 30, 2016, we had undistributed earnings of foreign subsidiaries that are indefinitely invested outside of the U.S. of approximately $90.6 million. It is not practicable to determine the income tax liability that might be incurred if these earnings were to be distributed. We anticipate that we have adequate liquidity and capital resources and would not need to repatriate additional earnings to the U.S. As of December 30, 2016, we have cash of approximately $38.1 million in our foreign subsidiaries.

Borrowing Arrangements

On February 2, 2015, we entered into a new credit agreement (the "Credit Agreement") by and among us, certain of our subsidiaries, East West Bank and City National Bank (collectively, the "Lenders"). The Credit Agreement provides for a

term loan in an aggregate principal amount of $40.0 million (the “Term Loan”) and a revolving credit facility in an aggregate principal amount of $40.0 million (the “Revolving Credit Facility”), a letter of credit facility in the aggregate availability amount of $20.0 million (as a sublimit of such Revolving Credit Facility) (the “L/C Facility”) and a swingline sub-facility in the aggregate availability amount of $5.0 million (as a sublimit of the Revolving Credit Facility) (together with the Term Loan, the Revolving Credit Facility and the L/C Facility, the “Senior Secured Credit Facility”).

On February 2, 2015, we borrowed an aggregate of $40.0 million under the Term Loan and approximately $6.5 million under the Revolving Credit Facility. The borrowed funds were used to repay the outstanding balance to Silicon Valley Bank as lender under our prior loan agreement. The prior loan agreement was terminated in connection with this transaction. In addition, we expensed the unamortized debt issuance costs relating to the prior loan agreement of approximately $0.7 million in the first quarter of 2015. On February 5, 2015, in order to finance the cash portion of the acquisition of Marchi, we borrowed an additional $29.7 million under the Revolving Credit Facility.

As of December 30, 2016, the Term Loan consists of nine remaining quarterly installments of $2.9 million with the balance of the outstanding principal amount due at maturity, which is February 2, 2019. The Revolving Credit Facility is available through February 2, 2019. The Credit Agreement includes customary representations, warranties, covenants and events of default. We and certain of our subsidiaries agreed to secure all of our and their respective obligations under the Credit Agreement by granting a first priority lien in substantially all of our and their respective personal property assets (subject to certain exceptions and limitations).

At our option, borrowings under the Term Loan and New Revolving Credit Facility (subject to certain limitations) bear interest at either a base rate or at the London Interbank Offered Rate ("LIBOR") (with the LIBOR being adjusted for certain Eurocurrency reserve requirements, if any, as described in the Credit Agreement), plus, in each case, an applicable margin based on our consolidated leverage ratio. All loans described above made on February 2, 2015 were initially base rate loans, carrying interest of 3.25%. The effective interest rate will be higher due to the incurrence of certain loan-related costs of $0.6 million that have been treated as a discount on the debt and amortized over the life of the loan.

As of December 30, 2016, the interest rates on the outstanding Term Loan and Revolving Credit facility were 3.38% (2.75% applicable margin and 0.63% LIBOR) and 3.75% fixed, respectively. In order to manage interest rate risk on the variable component of the Term Loan we entered into an interest rate swap with the Lenders in September 2015 with a total notional amount of $20.0 million (which amount decreases based on prorated quarterly principal payment over the remaining period of the Term Loan) pursuant to which we pay the counterparty a fixed rate of 0.99% and receive interest at a variable rate equal to the LIBOR rate we are required to pay under our Term Loan, or 0.63%, as of December 30, 2016. This interest rate swap effectively locked in a fixed interest rate of 3.49% on $14.0 million of the $26.2 million term loan balance outstanding as of December 30, 2016.

The Credit Agreement requires us to maintain certain financial covenants including a consolidated fixed charge coverage ratio (as defined in the Credit Agreement) of at least 1.25 to 1.00 starting with the first quarter of fiscal 2015 and a consolidated leverage ratio (as defined in the Credit Agreement) no greater than 3.5 to 1.00 starting with the first quarter of fiscal 2015. The Credit Agreement also includes other customary affirmative and negative covenants. In December 2015, the Credit Agreement was amended to include a provision requiring the Company to maintain a minimum cash balance of $35.0 million every quarter end. We were in compliance with all covenants for the quarter ended December 30, 2016.

The Credit Agreement also contains provisions requiring the following mandatory prepayments (subject to certain exceptions and limitations): annual prepayments in an amount equal to (a) 33% of excess cash flow (as defined in the Credit Agreement) if the aggregate outstanding principal amount of the New Term Loan equals or exceeds $20.0 million and (b) 25% of excess cash flow if the aggregate outstanding principal amount of the New Term Loan equals or exceeds $10.0 million but is less than $20.0 million. The Credit Agreement also restricts us from declaring or paying any cash dividends.

As of December 30, 2016, we have outstanding amounts under the Term Loan and Revolving Credit Facility of $26.2 million and $36.2 million, respectively, which are gross of unamortized debt issuance costs of $0.3 million.

In conjunction with our acquisition of Miconex in July 2015, we have a credit agreement with a local bank in the Czech Republic that provides for a term loan in the aggregate of 0.8 million euros and a revolving credit facility in the aggregate of up to 8.3 million euros. The credit agreement requires Miconex to maintain certain financial covenants, including a debt-to-earnings-before-interest-depreciation-and-amortization ratio no greater than 3.00 to 1.00 and an equity ratio of at least 15%. This agreement also includes other affirmative and negative covenants. As of December 30, 2016, Miconex was in compliance with all of its covenants.

40

As of December 30, 2016, Miconex had outstanding amounts under the term loan and the revolving credit facility of 0.4 million euros (approximately $0.5 million) and 4.9 million euros (approximately $5.2 million), respectively, for a total of $5.7 million, with interest rates ranging from 1.3% to 2.3% plus a variable rate based on the Euro Interbank Offered Rate with due dates ranging from 2017 to 2020. The credit facility expires on March 31, 2020.

As of December 30, 2016 our total bank debt was $68.1 million. As of December 30, 2016, we had $3.8 million and 3.3 million euros (approximately $3.5 million) available to borrow on our revolving loans in the U.S. and Czech Republic, respectively.

Capital Expenditures

Capital expenditures were $7.8 million for the year ended December 30, 2016 primarily attributable to the expansion of our Singapore, Czech Republic and certain U.S. facilities.

Off-Balance Sheet Arrangements

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

Contractual Obligations

Other than operating leases for certain equipment and real estate and purchase order commitments primarily for inventory, we have no off-balance sheet transactions, unconditional purchase obligations or similar instruments and, other than the arrangements described under “Borrowing Arrangements” above, are not a guarantor of any other entities’ debt or other financial obligations. The following table summarizes our future minimum lease payments, principal payments under debt obligations and our purchase obligations for the purchase of inventory as of December 30, 2016:

	Total	Less than 1 Year	1 - 3 Years	3 - 5 Years	More than 5 Years
Operating leases(1)	$ 26,789	$ 6,000	$ 9,515	$ 7,963	$ 3,311
Borrowing Arrangement(2)	68,067	16,971	51,062	34	—
Purchase order commitments	94,566	94,566	—	—	—
Total	$ 189,422	$ 117,537	$ 60,577	$ 7,997	$ 3,311

(1) Operating lease obligations reflects (a) the leases for our headquarters and manufacturing facilities in Hayward, California that expire in 2020 through 2022; (b) the leases for manufacturing facilities in South San Francisco that expire in 2018; (c) the leases for manufacturing facilities in China, Singapore and the Philippines that expire in 2017 through 2023; (d) the leases for manufacturing facilities in Austin, Texas that expire in 2021; (e) the leases for manufacturing facilities in Chandler, Arizona that expire in 2017 through 2022; and (g) the leases for our manufacturing facilities in the Czech Republic that expires in 2019. We have options to renew certain of the leases in South San Francisco, Hayward, Austin, Singapore and in the Czech Republic which we expect to exercise.

(2) Amounts reflect obligations under our New Revolving Credit Facility gross of $0.3 million of unamortized debt issuance costs, under which $26.2 million is outstanding under the New Term Loan and approximately $36.2

million under the New Revolving Credit Facility as of December 30, 2016 and of our bank debt of $5.7 million held by Miconex, in the Czech Republic.

Recently Issued and Adopted Accounting Pronouncement

For a description of recent accounting pronouncements, including the expected dates of adoption and estimated effects, if any, on UCT's consolidated financial statements, see Note 1, "Organization and Significant Accounting Policies," of the Notes to Consolidated Financial Statements.

41

Item 7A. Quantitative and Qualitative Disclosures About Market Risk
We are exposed to financial market risks, including changes in currency exchange rates and interest rates.

Foreign Exchange Rates

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

Chinese authorities recently relaxed controls of China’s currency, the Renminbi, and allowed the currency to strengthen against other world currencies, including the U.S. dollar. We continue to monitor any potential impact of the depreciation or appreciation of the Renminbi on our operations in China as well as globally. Changes in the value of the Renminbi did not have a material impact on our results of operations for any period presented in this Form 10-K.

Miconex uses derivative instruments, such as foreign currency exchange contracts, to hedge certain exposures to fluctuations in foreign currency exchange rates. These contracts reduce, but do not entirely eliminate the impact of currency exchange rates movement on Miconex’s assets and liabilities.

Interest Rates

Our interest rate risk relates primarily to outstanding amounts under our New Term Loan and New Revolving Credit Facility which totaled $62.1 million (net of debt issuance costs) as of December 30, 2016, and carries interest rates pegged to either the prime rate or LIBOR. To reduce our exposure to potentially rising interest rates, on September 17, 2015, we entered into an interest rate swap with the Lenders, encompassing $20.0 million of the New Term Loan. The interest rate swap exchanges the variable interest rate component where LIBOR was at 0.63% as of December 30, 2016, with a fixed interest rate of 0.99% over the remaining term of the New Term Loan. This interest rate swap is designated as a cash flow hedge of the interest rate risk attributable to forecasted variable interest payments.

An immediate increase in interest rates of 100 basis points would increase our interest expense by approximately $0.2 million per quarter. This would be partially offset by increased interest income on our invested cash. Conversely, an immediate decline of 100 basis points in interest rates would decrease our interest expense by approximately $0.2 million per quarter. This would be partially offset by decreased interest income on our invested cash.

Item 8. Financial Statements and Supplementary Data

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Reports of Independent Registered Public Accounting Firms	44
Consolidated Balance Sheets as of December 30, 2016 and December 25, 2015	46
Consolidated Statements of Operations for the years ended December 30, 2016, December 25, 2015 and December 26, 2014	47
Consolidated Statements of Comprehensive Income for the years ended December 30, 2016, December 25, 2015 and December 26, 2014	48
Consolidated Statements of Stockholders' Equity for the years ended December 30, 2016, December 25, 2015 and December 26, 2014	49
Consolidated Statements of Cash Flows for the years ended December 30, 2016, December 25, 2015 and December 26, 2014	50
Notes to Consolidated Financial Statements	51

REPORTS OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRMS

The Board of Directors and Stockholders

Ultra Clean Holdings, Inc.

We have audited the accompanying consolidated balance sheets of Ultra Clean Holdings, Inc. (the Company), as of December 30, 2016 and December 25, 2015, and the related consolidated statements of operations, comprehensive income, stockholders' equity and cash flows for the years then ended. We also have audited the Company's internal control over financial reporting as of December 30, 2016, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting appearing under Item 9A. Our responsibility is to express an opinion on these consolidated financial statements and an opinion on the Company's internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the consolidated financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

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

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Ultra Clean Holdings, Inc., as of December 30, 2016 and December 25, 2015, and

the consolidated results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, Ultra Clean Holdings, Inc., maintained, in all material respects, effective internal control over financial reporting as of December 30, 2016, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

/s/ Moss Adams LLP

San Francisco, California

March 15, 2017

To the Board of Directors and Stockholders of

Ultra Clean Holdings, Inc.

Hayward, California

We have audited the accompanying consolidated statements of operations, stockholders' equity, and cash flows of Ultra Clean Holdings, Inc. and subsidiaries (the "Company") for the year ended December 26, 2014. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the results of operations and cash flows of Ultra Clean Holdings, Inc. and subsidiaries for year ended December 26, 2014, in conformity with accounting principles generally accepted in the United States of America.

/s/ Deloitte & Touche LLP

San Jose, California

March 11, 2015

Ultra Clean Holdings, Inc.

Consolidated Balance Sheets

	December 30, 2016	December 25, 2015
	(In thousands, except share and per share amounts)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 52,465	$ 50,103
Accounts receivable, net of allowance of $65 and $158, respectively	74,663	59,148
Inventories	103,861	72,716
Prepaid expenses and other	6,461	8,172
Total current assets	237,450	190,139
Equipment and leasehold improvements, net	18,858	17,267
Goodwill	85,248	85,248
Purchased intangibles, net	37,024	42,782
Deferred tax assets, net	1,355	—
Other non-current assets	762	717
Total assets	$ 380,697	$ 336,153
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Bank borrowings	$ 16,819	$ 12,744
Accounts payable	71,189	39,660
Accrued compensation and related benefits	7,904	6,536
Deferred rent, current portion	634	584
Other current liabilities	4,515	4,680
Total current liabilities	101,061	64,204
Bank borrowings, net of current portion	50,931	62,795
Deferred tax liability	9,917	5,026
Deferred rent and other liabilities	2,657	3,185
Total liabilities	164,566	135,210
Commitments and contingencies (See Note 12)		
Stockholders' equity:		
Preferred stock — $0.001 par value, 10,000,000 authorized; none outstanding	—	—
Common stock — $0.001 par value, 90,000,000 authorized; 32,956,285 and 32,279,429 shares issued and outstanding, in 2016 and 2015, respectively	33	32
Additional paid-in capital	181,781	176,280
Common shares held in treasury, at cost, 601,944 shares in 2016 and 2015, respectively	(3,337)	(3,337)
Retained earnings	38,037	27,986

Accumulated other comprehensive loss	(383)	(18)
Total stockholders' equity	216,131	200,943
Total liabilities and stockholders' equity	$ 380,697	$ 336,153

(See notes to consolidated financial statements)

46

Ultra Clean Holdings, Inc.

Consolidated Statements of Operations

	Fiscal Year Ended		
	December 30, 2016	December 25, 2015	December 26, 2014
	(In thousands, except per share amounts)		
Sales	$562,759	$469,103	$513,957
Cost of goods sold	475,976	398,073	440,824
Gross profit	86,783	71,030	73,133
Operating expenses:			
Research and development	9,900	9,578	7,067
Sales and marketing	11,568	11,499	10,432
General and administrative	42,924	44,112	37,450
Total operating expenses	64,392	65,189	54,949
Income from operations	22,391	5,841	18,184
Interest and other income (expense), net	(3,444)	(2,234)	(1,854)
Income before provision for income taxes	18,947	3,607	16,330
Income tax provision	8,896	14,339	4,973
Net income (loss)	$10,051	$(10,732)	$11,357
Net income (loss) per share:			
Basic	$0.31	$(0.34)	$0.39
Diluted	$0.30	$(0.34)	$0.38
Shares used in computing net income (loss) per share:			
Basic	32,632	31,564	29,301
Diluted	33,150	31,564	29,936

(See notes to consolidated financial statements)

47

Ultra Clean Holdings, Inc.

Consolidated Statements of Comprehensive Income

	Fiscal Year Ended		
	December 30, 2016	December 25, 2015	December 26, 2014
Net income (loss)	$ 10,051	$ (10,732)	$ 11,357
Other comprehensive income (loss):			
Change in cumulative translation adjustment	(393)	(5)	—
Cash flow hedges:			
Change in fair value of derivatives	(60)	23	—
Adjustment for net gain (loss) realized and included in net income	88	(36)	—
Total change in unrealized gain (loss) on derivative instruments	28	(13)	—
Other comprehensive loss	(365)	(18)	—
Comprehensive income (loss)	$ 9,686	$ (10,750)	$ 11,357

(See notes to consolidated financial statements)

48

Ultra Clean Holdings, Inc.

Consolidated Statements of Stockholders' Equity

	Common Stock Shares	Amount	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Total Stockholders' Equity
	(in thousands, except share amounts)					
Balance December 27, 2013	28,694,762	$29	$ 144,539	$ 27,361	$ —	$ 171,929
Issuance of restricted common stock	47,000	—	—	—	—	—
Issuance under employee stock plans	919,446	1	1,939	—	—	1,940
Amortization of stock-based compensation	—	—	4,400	—	—	4,400
Excess tax benefit from stock-based compensation	—	—	284	—	—	284
Employees' taxes paid upon vesting of restricted stock units	(98,870)	—	(1,358)	—	—	(1,358)
Net income	—	—	—	11,357	—	11,357
Balance December 26, 2014	29,562,338	$ 30	$ 149,804	$ 38,718	$ —	$ 188,552
Issuance of restricted common stock	56,000	—	—	—	—	—
Issuance under employee stock plans	763,529	—	2,411	—	—	2,411
Amortization of stock-based compensation	—	—	3,660	—	—	3,660
Excess tax benefit from stock-based compensation	—	—	(77)	—	—	(77)
Employees' taxes paid upon vesting of restricted stock units	(39,938)	—	(330)	—	—	(330)
Common stock issued for acquisitions	1,937,500	2	17,475	—	—	17,477
Net loss	—	—	—	(10,732)	—	(10,732)
Other comprehensive loss	—	—		—	(18)	(18)
Balance December 25, 2015	32,279,429	$ 32	$ 172,943	$ 27,986	$ (18)	$ 200,943
Issuance of restricted common stock	52,000	—	—	—	—	—
Issuance under employee stock plans	761,824	1	601	—	—	602
Amortization of stock-based compensation	—	—	5,671	—	—	5,671
Employees' taxes paid upon vesting	(136,968)	—	(771)	—	—	(771)

of restricted stock units						
Net income	—	—	—	10,051	—	10,051
Other comprehensive loss	—	—	—	—	(365)	(365)
Balance December 30, 2016	32,956,285	$ 33	$ 178,444	$ 38,037	$ (383)	$ 216,131

(See notes to consolidated financial statements)

49

Ultra Clean Holdings, Inc.

Consolidated Statements of Cash Flows

	Fiscal Year Ended		
	December 30, 2016	December 25, 2015	December 26, 2014
	(In thousands)		
Cash flows from operating activities:			
Net income (loss)	$ 10,051	$ (10,732)	$ 11,357
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	5,981	4,728	3,004
Amortization of finite-lived intangibles	5,758	6,212	4,884
Amortization of debt issuance costs	153	829	529
Excess tax benefit from stock-based compensation	771	77	(284)
Stock-based compensation	5,671	3,660	4,400
Loss from disposal of fixed assets	169	—	—
Change in the fair value of the contingent earn out	1,446	(449)	—
Changes in assets and liabilities, net of effects of acquisitions:			
Accounts receivable	(15,834)	5,818	5,633
Inventories	(31,516)	(8,329)	7,092
Prepaid expenses and other	1,709	(948)	(2,425)
Deferred income taxes	3,534	10,352	2,190
Other non-current assets	(45)	(24)	(84)
Accounts payable	31,705	(12,593)	(5,186)
Accrued compensation and related benefits	1,397	798	(422)
Income taxes payable	(16)	(77)	284
Other liabilities	(3,357)	1,604	(613)
Net cash provided by operating activities	17,577	926	30,359
Cash flows from investing activities:			
Purchases of equipment and leasehold improvements	(7,278)	(10,152)	(5,334)
Acquisition of businesses, net of cash acquired	—	(45,064)	—
Proceeds from disposal of equipment and leasehold improvements	—	—	191
Net cash used in investing activities	(7,278)	(55,216)	(5,143)
Cash flows from financing activities:			
Proceeds from bank borrowings	6,657	79,212	48,500
Proceeds from issuance of common stock	602	2,411	1,940
Principal payments on bank borrowings	(14,341)	(55,205)	(56,000)
Payments of debt issuance costs	—	(611)	—
Excess tax benefit from stock-based compensation	(771)	(77)	284
Employees' taxes paid upon vesting of restricted stock units	—	(331)	(1,358)
Net cash provided by (used in) financing activities	(7,853)	25,399	(6,634)
Effect of exchange rate changes on cash and cash equivalents	(84)	(3)	—
Net increase (decrease) in cash	2,362	(28,894)	18,582
Cash and cash equivalents at beginning of year	50,103	78,997	60,415

Cash and cash equivalents at end of year	$ 52,465	$ 50,103	$ 78,997
Supplemental cash flow information:			
Income taxes paid	$ 4,463	$ 2,900	$ 3,525
Income tax refunds	$ 646	$ 622	$ 1,356
Interest paid	$ 2,505	$ 2,163	$ 2,035
Non-cash investing and financing activities:			
Fair value of common shares issued for acquisition	$ —	$ 17,661	$ —
Fair value of earn-out payments related to Miconex acquisition	$ —	$ 1,280	$ —
Restricted stock issued	$ 2,986	$ 2,950	$ 7,190
Equipment and leasehold improvements purchased included in accounts payable and other current liabilities	$ 701	$ 153	$ 348

(See notes to consolidated financial statements)

Ultra Clean Holdings, Inc.

Notes to Consolidated Financial Statements

1. Organization and Significant Accounting Policies

Organization — Ultra Clean Holdings, Inc. (the "Company" or "UCT") was founded in November 2002 for the purpose of acquiring Ultra Clean Technology Systems and Service, Inc. Ultra Clean Technology Systems and Service, Inc. was founded in 1991 by Mitsubishi Corporation and was operated as a subsidiary of Mitsubishi until November 2002, when it was acquired by UCT. UCT became a publicly traded company in March 2004. Ultra Clean Technology (Shanghai) Co., Ltd ("UCTS") and Ultra Clean Micro-Electronics Equipment (Shanghai) Co., Ltd. ("UCME") were established in 2005 and 2007, respectively, to facilitate the Company's operations in China. In December 2015, UCTS merged into UCME. Ultra Clean Asia Pacific, Pte, Ltd. (Singapore) was established in fiscal year 2008 to facilitate the Company's operations in Singapore. In July 2012, UCT acquired American Integration Technologies LLC ("AIT") to add to the Company's existing customer base in the semiconductor and medical spaces and to provide additional manufacturing capabilities. In February 2015, UCT acquired Marchi Thermal Systems, Inc. ("Marchi"), a designer and manufacturer of specialty heaters, thermocouples and temperature controllers. Marchi delivers flexible heating elements and thermal solutions to our customers. The Company believes heaters are increasingly critical in equipment design for the most advanced semiconductor nodes. In July 2015, UCT acquired MICONEX s.r.o. ("Miconex"), a privately-held provider of advanced precision fabrication of plastics, primarily for the semiconductor industry that, initially, is expected to expand the Company's capabilities with existing customers.

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

Foreign Currency Translation and Remeasurement — The Company has one foreign subsidiary whose functional currency is not its local currency or the U.S. dollar. The Company remeasures the monetary assets and liabilities of this subsidiary into its functional currency. Gains and losses from these remeasurements are recorded in interest and other income (expense), net. The Company then translates the assets and liabilities of this subsidiary into the U.S. dollar. Gains and losses from these translations are recognized in foreign currency translation included in accumulated other comprehensive income (AOCI) within stockholders' equity. For the Company's foreign subsidiaries where the U.S. dollar is the functional currency, any gains and losses resulting from the translation of the assets and liabilities of these subsidiaries are recorded in interest and other income (expense), net.

Use of Accounting Estimates — The presentation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosures of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Such estimates and assumptions include reserves on inventory, valuation of deferred tax assets and impairment of goodwill and other long-lived assets. The Company bases its estimates and judgments on historical experience and on various other assumptions that it believes are reasonable under the circumstances. However, future events are subject to change and the best estimates and judgments routinely require adjustment. Actual amounts may differ from those estimates.

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

Ultra Clean Holdings, Inc.

Notes to Consolidated Financial Statements—(Continued)

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

	Fiscal Year Ended					
	2016		2015		2014	
Lam Research Corporation	53.3	%	50.6	%	38.0	%
Applied Materials, Inc.	28.9		26.4		22.8	
ASM International, Inc.	—	*	—	*	14.9	
Total	82.2	%	77.0	%	75.7	%

*Total sales for the period are below 10%.

Two customers' accounts receivable balances: Lam Research Corporation and Applied Materials, Inc. were individually greater than 10% of total accounts receivable as of December 30, 2016, and there were three customers' accounts receivable balances: Lam Research Corporation, Applied Materials, Inc. and ASM International, Inc., that were individually greater than 10% of accounts receivable as of December 25, 2015 and, in the aggregate, represented approximately 85.0% and 84.6% of accounts receivable at December 30, 2016 and December 25, 2015, respectively.

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

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

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

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

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

Description	December 30, 2016	Fair Value Measurement at Reporting Date Using Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Other assets:				
Interest rate swap	$ 15	$ —	$ 15	$ —
Other liabilities:				
Interest rate swap	$ 6	$ —	$ 6	$ —
Contingent earn-out liability	$ 278	$ —	$ —	$ 278

52

Ultra Clean Holdings, Inc.

Notes to Consolidated Financial Statements—(Continued)

		Fair Value Measurement at Reporting Date Using		
Description	December 25, 2015	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash and cash equivalents:				
Money market fund deposits	$ 640	$640	$ —	$ —
Other liabilities:				
Interest rate swap	$ 23	$—	$ 23	$ —
Contingent earn-out liability	$ 831	$—	$ —	$ 831

Derivative Financial Instruments — The Company recognizes derivative instruments as either assets or liabilities in the accompanying Consolidated Balance Sheets at fair value. The Company records changes in the fair value of the derivatives in the accompanying Consolidated Statements of Operations as interest and other income (expense), net, or as a component of AOCI in the accompanying Consolidated Balance Sheets.

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

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

At December 30, 2016 and December 25, 2015, inventory balances were $103.9 million and $72.7 million, respectively, net of reserves of $6.9 million and $5.7 million, respectively. The inventory write-downs are recorded as an inventory valuation allowance established on the basis of obsolete inventory or specific identified inventory in excess of estimated usage. For fiscal years 2016, 2015 and 2014, inventory write-downs were $2.3 million, $2.4 million and $4.6 million, including $2.6 million of inventory written off as part of the GTAT bankruptcy in the third

quarter of 2014.

Equipment and Leasehold Improvements — Equipment and leasehold improvements are stated at cost, or, in the case of equipment under capital leases, the present value of future minimum lease payments at inception of the related lease. Depreciation and amortization are computed using the straight-line method over the lesser of the estimated useful lives of the assets or the terms of the leases. Useful lives range from three to fifteen years.

Internal use software — Direct costs incurred to develop software for internal use are capitalized and amortized over an estimated useful life of three or five years. Costs related to the design or maintenance of internal use software are expensed as incurred. Capitalized internal use software is included in equipment and leasehold improvements.

Construction in progress — Construction in progress is related to the construction or development of property and equipment that has not yet been placed in service for their intended use and is, therefore, not depreciated.

53

Ultra Clean Holdings, Inc.

Notes to Consolidated Financial Statements—(Continued)

Product Warranty — The Company provides a warranty on its products for a period of up to two years, and provides for warranty costs at the time of sale based on historical activity. Determination of the warranty reserve requires the Company to make estimates of product return rates and expected costs to repair or replace the products under warranty. If actual return rates and/or repair and replacement costs differ significantly from these estimates, adjustments to recognize additional cost of sales may be required in future periods. The warranty reserve is included in other current liabilities on the consolidated balance sheet.

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

During the quarter ended December 30, 2016, the Company performed a twelve quarter analysis of its U.S. cumulative pretax profit position as of December 30, 2016 and, weighing both positive and negative evidence, determined that it is more likely than not that the Company will not have the ability to generate sufficient taxable income over the foreseeable future to realize its U.S. federal and state deferred tax assets. Therefore, during the quarter ended December 30, 2016, the Company continues to believe that a valuation allowance is required on its U.S. federal net deferred tax assets. The total U.S. federal and state valuation allowance as of December 30, 2016 was $23.6 million.

During the quarter ended December 30, 2016, the Company has concluded that a full valuation allowance against one of its Singapore subsidiaries' deferred tax assets continues to be necessary. The total valuation allowance of the Singapore loss entity as of December 30, 2016 is $0.2 million.

The Company's ability to realize deferred tax assets depends on its ability to generate sufficient taxable income within the carryback or carry forward periods. In assessing the Company's future taxable income, the Company considered all sources of future taxable income available to realize its deferred tax assets, including the taxable income from future reversal of existing temporary differences, carry forwards, taxable income in carryback years and tax-planning strategies. If changes occur in the assumptions underlying the Company's tax planning strategies or in the scheduling of the reversal of its deferred tax liabilities, the valuation allowance may need to be adjusted in the future.

The Company had a total valuation allowance on its net deferred tax assets in the amount of $23.8 million and $18.7 million as of December 30, 2016 and December 25, 2015, respectively.

Income tax positions must meet a more likely than not recognition threshold to be recognized. Income tax positions that previously failed to meet the more likely than not threshold are recognized in the first subsequent financial reporting period in which that threshold is met. Previously recognized tax positions that no longer meet the more likely than not threshold are derecognized in the first subsequent financial reporting period in which that threshold is no longer met. The Company recognizes potential accrued interest and penalties related to unrecognized tax benefits within the consolidated statements of income as income tax expense. The calculation of tax liabilities involves significant judgment in estimating the impact of uncertainties in the application of complex tax laws. Resolution of these uncertainties in a manner inconsistent with the Company's expectations could have a material impact on its results of operations and financial position. Management believes that it has adequately provided for any adjustments that may result from these examinations; however, the outcome of tax audits cannot be predicted with certainty.

Ultra Clean Holdings, Inc.

Notes to Consolidated Financial Statements—(Continued)

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

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

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

Net Income per Share — Basic net income per share is computed by dividing net income by the weighted average number of shares outstanding for the period. Diluted net income per share is calculated by dividing net income by the weighted average number of common shares outstanding and common equivalent shares from dilutive stock options and restricted stock using the treasury stock method, except when such shares are anti-dilutive (see Note 9 to the Notes to Consolidated Financial Statements).

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

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

Stock-based compensation

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

Stock-based compensation expense includes compensation costs related to estimated fair values of stock options, units and awards granted. Stock-based compensation expense from stock options, restricted stock units and stock awards and the related income tax benefit recognized were $5.7 million and $2.7 million, respectively, for fiscal year 2016, $3.7 million and $0.5 million, respectively, for fiscal year 2015 and $4.4 million and $1.3 million, respectively, for fiscal year 2014.

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

The Company uses historical data to estimate pre-existing forfeitures, and records stock-based compensation for those awards that are expected to vest at the time of grant and revises those estimates in subsequent periods if actual forfeitures differ from those estimates.

Ultra Clean Holdings, Inc.

Notes to Consolidated Financial Statements—(Continued)

The stockholders of the Company approved an increase in the number of shares available for issuance under our amended and restated stock incentive plan by 1,500,000 and 3,100,000 on June 10, 2010 and May 22, 2013, respectively.

There were no employee stock option grants by the Company for years 2016, 2015 and 2014. Generally, options vest over four years and expire no later than ten years from the grant date. During fiscal years 2016, 2015 and 2014, the Company recorded $3.0 million, $3.2 million and $3.1 million, respectively, of stock-based compensation expense, net of tax, associated with employee and director stock plans and employee stock purchase plan programs. As of December 30, 2016, there was $6.4 million, net of forfeitures of $1.5 million, of unrecognized compensation cost related to employee and director stock which is expected to be recognized on a straight-line basis over a weighted average period of approximately 1.83 years, and will be adjusted for subsequent changes in estimated forfeitures and future grants.

Total stock-based compensation during the fiscal years 2016, 2015 and 2014, respectively, to various expense categories was as follows (in thousands):

	Year Ended		
	December 30, 2016	December 25, 2015	December 26, 2014
Cost of goods sold (1)	$ 1,254	$ 1,175	$ 1,195
Sales and marketing	3,673	414	428
Research and development	281	202	156
General and administrative	463	1,869	2,621
	5,671	3,660	4,400
Income tax benefit	(2,660)	(487)	(1,342)
Stock-based compensation expense, net of tax	$ 3,011	$ 3,173	$ 3,058

(1) Stock-based compensation expenses capitalized in inventory for fiscal years 2016, 2015 and 2014 were considered immaterial.

Intangible Assets

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

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

future cash flows utilizing a discount rate. See Note 5 to the Notes to Consolidated Financial Statements for further discussion.

Goodwill is recorded as the difference, if any, between the aggregate consideration paid for an acquisition and the fair value of the net tangible and intangible assets acquired. The Company tests goodwill for impairment at the reporting unit level (operating segment or one level below an operating segment) on an annual basis in the fourth quarter of each fiscal year or more frequently if the Company believes indicators of impairment exist. The performance of the test involves a two-step process. The first step of the impairment test involves comparing the fair values of the applicable reporting units with their aggregate carrying values, including goodwill. The Company generally determines the fair value of the Company's reporting units using the income approach methodology of valuation that includes the discounted cash flow method as well as other generally accepted valuation methodologies. If the carrying amount of a reporting unit exceeds the reporting unit's fair value, the Company

56

Ultra Clean Holdings, Inc.

Notes to Consolidated Financial Statements—(Continued)

performs the second step of the goodwill impairment test to determine the amount of impairment loss. The second step of the goodwill impairment test involves comparing the implied fair value of the affected reporting unit's goodwill with the carrying value of that goodwill. The Company would then record a charge based on the results of the second step.

Long-lived Assets

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

At the end of fiscal years 2016, 2015 and 2014, the Company assessed the useful lives of its long-lived assets, including property, plant and equipment as well as its intangible assets and concluded that no impairment was required, except for UAMC assets, as discussed below.

Non-current assets, or disposal groups comprising assets and liabilities, that are expected to be recovered primarily through sale rather than through continuing use, are classified as held for sale. Immediately before classification as held for sale or distribution, the assets, or components of a disposal group, are measured at the lower of the carrying amount and fair value less costs to sell. Impairment losses on initial classification as held for sale and subsequent gains and losses on remeasurement are recognized in the statement of operations. Gains are not recognized in excess of any cumulative impairment loss. Once classified as held for sale, intangible assets and property, plant and equipment are no longer amortized or depreciated.

In November 2016, the Company approved a plan to dispose of a portion of its 3D printing business in Singapore (UAMC). This plan is consistent with the Company's strategy to focus on producing products for the semiconductor capital equipment industry. The Company is actively seeking a buyer for a portion of its 3D printing business and expects to complete the sale in 2017. The Company recognized a $0.7 million loss on reclassification of the assets of UAMC as held for sale as at December 30, 2016. This loss was recorded in the cost of goods in the statements of operations. The total assets of UAMC at the end of the reporting period were $1.6 million.

Recent Accounting Pronouncements

In May 2014, the FASB amended the existing accounting standards for revenue recognition. In August 2015, the FASB delayed the effective date of the amended accounting standard for revenue recognition by one year. As such, the updated standard will be effective for the Company in the first quarter of 2018, which is when the Company plans to adopt this standard. The Company has not yet determined whether it would use the retrospective or cumulative effect transition method. The Company is currently evaluating the effects, if any, that the adoption of this guidance will have on the Company's consolidated financial statements and disclosures.

In August 2014, the FASB amended the guidance related to an entity's evaluations and disclosures of going concern uncertainties. The new guidance requires management to perform interim and annual assessments of the entity's ability to continue as a going concern within one year of the date the financial statements are issued, and to provide certain disclosures if conditions or events raise substantial doubt about the entity's ability to continue as a going concern. The Company adopted the amended guidance for annual and interim periods beginning on December 26, 2015. The adoption of the amended guidance did not impact the Company's balance sheets, results of operations or cash flows.

57

Ultra Clean Holdings, Inc.

Notes to Consolidated Financial Statements—(Continued)

In April 2015, the FASB issued authoritative guidance that requires debt issuance costs to be presented in the balance sheet as a direct deduction from the carrying amount of the related debt liability, consistent with debt discounts. The Company adopted this guidance with retrospective application in the first quarter of 2016. The adoption of this standard did not have a material impact on the Company's consolidated financial statements.

In July 2015, the FASB issued authoritative guidance that requires inventory to be measured at the lower of cost and net realizable value instead of at lower of cost or market. This guidance does not apply to inventory that is measured using last-in, first out or the retail inventory method but applies to all other inventory including those measured using first-in, first-out or the average cost method. The authoritative guidance will be effective for the Company in the first quarter of fiscal 2018 and should be applied prospectively. Early adoption is permitted as of the beginning of an interim or annual reporting period. The Company is currently evaluating the effect of this new guidance on the Company's consolidated financial statements.

In November 2015, the FASB issued authoritative guidance on income taxes, which simplifies the presentation of deferred income taxes by requiring deferred tax assets and liabilities be classified as noncurrent on the balance sheet. The update is effective for annual period beginning after December 15, 2016, and interim periods within those annual periods. Early adoption is permitted as of the beginning of any interim or annual reporting period. Additionally, this guidance may be applied either prospectively or retrospectively to all periods presented. The Company early adopted this standard during the quarter ended December 30, 2016 using the prospective method. A change was made to the prior year consolidated balance sheets to reclassify the current deferred tax liability of $0.5 million from other current liabilities to deferred tax liability. This change was made to conform with the current year presentation. See Note 7, Income Taxes, for additional information.

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

In March 2016, the FASB issued new guidance which involves several aspects of the accounting for share-based payment transactions including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. Under the new standard, income tax benefits and deficiencies are to be recognized as income tax expense or benefit in the income statement and the tax effects of exercised or vested awards should be treated as discrete items in the reporting period in which they occur. An entity should also recognize excess tax benefits regardless of whether the benefit reduces taxes payable in the current period. Excess tax benefits should be classified along with other income tax cash flows as an operating activity. In regards to forfeitures, the entity may make an entity-wide accounting policy election to either estimate the number of awards that are expected to vest or account for forfeitures when they occur. The guidance is effective for fiscal years beginning after December 15, 2016 including interim periods within that reporting period, however early adoption is permitted. The Company adopted the amended accounting guidance as of December 31, 2016 and recognized an insignificant cumulative-effect adjustment to equity as of the beginning of the period. Forfeitures will continue to be estimated consistent with the

Company's existing accounting policies. The impact to the Company's financial condition, results of operations and cash flows will vary based on, among other factors, the market price of the Company's common stock.

In August 2016, the FASB issued an amendment to its accounting guidance related to the classification of certain cash receipts and cash payments. The amendment was issued to reduce the diversity in practice in how certain transactions are classified in the statement of cash flows. The amendment will be effective for the Company beginning in its first quarter of fiscal year 2019 with early adoption permitted. The amendment is required to be adopted retrospectively unless it is impracticable. The Company is evaluating the impact of adopting this amendment to its consolidated financial statements.

Ultra Clean Holdings, Inc.

Notes to Consolidated Financial Statements—(Continued)

In January 2017, the FASB clarified its guidance to simplify the measurement of goodwill by eliminating the Step 2 impairment test. The new guidance requires companies to perform goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. The amendment will be effective for the Company beginning in its first quarter of fiscal year 2021. The amendment is required to be adopted prospectively. Early adoption is permitted. The Company is evaluating the impact of adopting this amendment to its consolidated financial statements.

In January 2017, the FASB clarified its guidance on the definition of a business in accounting for transactions when determining whether they represent acquisitions or disposals of assets or of a business. The amendment will be effective for the Company beginning in its first quarter of fiscal year 2019. The amendment is required to be adopted prospectively. The Company is evaluating the impact of adopting this amendment to its consolidated financial statements.

2. Financial Instruments

Cash Equivalents

As of December 25, 2015, the Company had an overnight sweep account invested in money market funds with maturities of less than 90 days from purchase and is thus classified as cash and cash equivalents on the Company's balance sheet. The carrying value and fair value of these money market funds as of December 25, 2015 was $0.6 million, based on Level 1 inputs. There were no money market funds as of December 30, 2016.

Derivative Financial Instruments

The Company uses certain interest rate derivative contracts to hedge interest rate exposures on existing floating rate debt. The Company classifies its interest rate derivative contracts primarily within Level 2 of the fair-value hierarchy discussed in Note 1of the Company's Consolidated Financial Statements as the valuation inputs are based on quoted prices and market observable data of similar instruments. The Company does not use derivatives for speculative or trading purposes.

Cash Flow Hedges

In September 2015, the Company entered into an interest rate swap with East West and City National banks with a notional amount of $20.0 million pursuant to which the Company pays the counterparty a fixed rate of 0.99% and receives interest at a variable rate equal to the LIBOR rate the Company is required to pay under its term loan, or 0.63%, as of December 30, 2016. This interest rate swap effectively locks in a fixed interest rate of 3.49% on $14.0 million of the $26.2 million term loan as of December 30, 2016, with a decreasing notional amount based on prorated quarterly principal payments over the remaining period of the term loan. Gains or losses on the effective portion of a cash flow hedge are reflected as a component of AOCI and subsequently recorded to interest income (expense) when the hedged transactions are realized. If the hedged transactions become probable of not occurring, the corresponding amounts in AOCI would be immediately reclassified to interest and other income, net. As of December 30, 2016, the effective portion of the Company's cash flow hedge before tax effect was approximately $0.1 million, of which $5,600 is expected to be reclassified from AOCI into earnings within the next 12 months.

Non-Designated Derivatives

Miconex interest swap to convert the variable interest rates on Miconex debt to fixed rates with a total notional amount of $0.3 million is not designated as hedging instruments. The Company recognizes gains and losses on this contract, as well any related costs in interest and other income (expense), net.

59

Ultra Clean Holdings, Inc.

Notes to Consolidated Financial Statements—(Continued)

The Company records all derivatives in the Consolidated Balance Sheets at fair value. The Company's accounting treatment for these derivative instruments is based on its hedge designation. The following tables show the Company's derivative instruments at gross fair value (in thousands) as of December 30, 2016 and December 25, 2015.

		December 30, 2016		
	Balance Sheet Location	Fair Value of Derivatives Designated as Hedge Instruments	Fair Value of Derivatives Not Designated as Hedge Instruments	Total Fair Value
Derivative assets and liabilities:				
Level 2:				
Interest rate swap	Other non-current assets	$ 15	$ —	$ 15
Interest rate swap	Deferred rent and other liabilities	$ —	$ 6	$ 6

		December 25, 2015		
	Balance Sheet Location	Fair Value of Derivatives Designated as Hedge Instruments	Fair Value of Derivatives Not Designated as Hedge Instruments	Total Fair Value
Derivative liabilities:				
Level 2:				
Interest rate swap	Deferred rent and other liabilities	$ 23	$ 10	$ 33

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

	Gains (Losses) Recognized in OCI on Derivatives Before Tax Effect (Effective Portion)	
	Twelve Months Ended	
	December 30, 2016	December 25, 2015
Derivatives in Cash Flow Hedging Relationship		

Interest rate swap	$ (60)	$ (55)

	Gains Reclassified from AOCI into Income (Effective Portion)		
		Twelve Months Ended	
	Income Statement Location	December 30, 2016	December 25, 2015
Derivatives in Cash Flow Hedging Relationship			
Interest rate swap	Interest and other income (expense), net	$ 88	$ (39)

There were no gains (losses) recognized in income on derivatives that are excluded from the effectiveness testing and ineffective portion of the cash flow hedge for the fiscal year ended December 30, 2016 and December 25, 2015.

The effect of derivative instruments not designated as hedging instruments on income for the fiscal year ended December 30, 2016 and December 25, 2015 is immaterial to the financial statements.

60

Ultra Clean Holdings, Inc.

Notes to Consolidated Financial Statements—(Continued)

3. Balance Sheet Information

Inventories consisted of the following (in thousands):

	December 30, 2016	December 25, 2015
Raw materials	$ 75,060	$ 57,321
Work in process	26,529	17,954
Finished goods	9,140	4,561
	110,729	79,836
Reserve for excess and obsolete	(6,868)	(7,120)
Total	$ 103,861	$ 72,716

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

	December 30, 2016	December 25, 2015
Computer equipment and software	$ 11,135	$ 10,308
Furniture and fixtures	3,118	3,201
Machinery and equipment	17,016	16,253
Leasehold improvements	16,838	14,951
Construction in progress	4,576	1,168
	52,683	45,881
Accumulated depreciation	(33,825)	(28,614)
Total	$ 18,858	$ 17,267

4. Acquisitions

Miconex

On July 31, 2015, the Company acquired 100.0% of the shareholding interest of Miconex, a limited liability company incorporated under the laws of the Czech Republic and a provider of advanced precision fabrication of plastics, primarily for the semiconductor industry. This acquisition is expected to expand the Company's capabilities with existing customers. Pursuant to the purchase agreement, the Company paid $15.6 million in cash and issued 500,000 shares of the Company's common stock. In addition, the former owners of Miconex are entitled to up to $4.0 million of potential cash "earn-out" payments over a two-year period following closing, based on Miconex's achievement of specified performance targets based on earnings before interest and taxes pursuant to the provisions of the purchase agreement. In 2016, Miconex achieved the specified performance targets for the first year and was paid the maximum

of $2.0 million of the $4.0 million potential cash earn-out. The acquisition price of Miconex for purposes of the Company's purchase price allocation was determined to be $20.7 million, which includes the cash payment of $15.6 million, the stock consideration valued at $3.8 million and the fair value of the potential earn-out payments of approximately $1.3 million.

The fair value of the common stock issued was determined based on the average of the high and low trading prices per share of the Company's common stock on the acquisition date of approximately $7.64 per share. The fair value of the earn-out payments at the acquisition date was determined providing risk adjusted earnings projections using the Monte Carlo Simulation. These inputs are not observable in the market and thus represent a Level 3 measurement as discussed in Note 1 of the Company's Consolidated Financial Statements. During the fourth quarter of fiscal year 2015, the Company reassessed the fair value of the earn-out payments, reducing the fair value from $1.3 million at the end of the third quarter of fiscal year 2015 to $0.3 million as of December 30, 2016. The increase in the fair value of the contingent earn out of $1.4 million was recorded as other expense.

Ultra Clean Holdings, Inc.

Notes to Consolidated Financial Statements—(Continued)

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

The purchase price for this acquisition has been allocated as follows:

Fair Market Values (in thousands)			
Cash and cash equivalents	$	239	
Accounts receivable		3,065	
Inventories		6,198	
Deferred tax assets		196	
Prepaid expenses and other		214	
Equipment and leasehold improvements		428	
Goodwill		10,950	
Purchased intangible assets		8,800	
Total assets acquired		30,090	
Bank borrowings		(3,027	)
Accounts payable		(3,509	)
Accrued compensation and related benefits		(432	)
Other current liabilities		(576	)
Deferred tax liability		(1,856	)
Other liabilities		(24	)
Total liabilities assumed		(9,424	)
Purchase price allocated	$	20,666	

Purchased

	Useful Life (In years)	Intangible Assets (In thousands)
Customer relationships	7.5	$ 8,800

Goodwill is not amortized but is reviewed for impairment at least annually and whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. Although goodwill is not amortized for financial accounting purposes, it is amortized in its entirety for tax purposes over fifteen years.

The results of operations for the Company for the fiscal period ended December 25, 2015 include five months of operating activity for Miconex. Net sales of approximately $14.2 million and operating income of approximately $2.0 million attributable to Miconex were included in the consolidated results of operations. For the fiscal year ended December 25, 2015, results of operations included charges of $0.5 million attributable to amortization of purchased intangible assets and $0.4 million of deal costs associated with the acquisition. Deal costs are included in general and administrative expenses in the Company’s Consolidated Statements of Operations.

Marchi

On February 5, 2015, the Company acquired 100.0% of the shareholding interest of Marchi, a designer and manufacturer of specialty thermocouples, heaters and temperature controllers, for approximately $29.9 million in cash and 1,437,500 shares of newly issued common stock for a total purchase price of approximately $43.7 million. In addition, the Company incurred approximately $0.2 million of costs related to the acquisition. The Company completed this acquisition primarily in order to expand its capabilities with existing customers and to bring the Company closer to

62

Ultra Clean Holdings, Inc.

Notes to Consolidated Financial Statements—(Continued)

the customer in the design stage of new products and next generation equipment. The Company financed the cash portion of the acquisition by borrowing a total of $29.7 million under a new Credit Agreement. See further discussion of the borrowing arrangements in Note 6 to the Company's Consolidated Financial Statements.

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

The purchase price for this acquisition has been allocated as follows:

Fair Market Values (in thousands)	
Inventories	$ 1,297
Equipment and leasehold improvements	767
Goodwill	18,380
Purchased intangible assets	23,370
Other non-current assets	26
Total assets acquired	43,840
Other liabilities	(100)
Total liabilities assumed	(100)
Purchase price allocated	$ 43,740

	Useful Life (In years)	Purchased Intangible Assets (In thousands)
Customer relationships	10	$ 9,900
Trade name	6	1,170
Intellectual properties/know-how	8 - 12	12,300
Total purchased intangible assets		$ 23,370

The results of operations for the Company for fiscal year ended December 25, 2015 include eleven full months of operating activity for Marchi. Net sales of approximately $12.9 million and operating income of approximately $4.8 million attributable to Marchi were included in the consolidated results of operations. For the fiscal year ended December 30, 2016, results of operations included charges of $2.4 million attributable to amortization of purchased

intangible assets and $0.2 million of deal costs associated with the acquisition. Deal costs are included in general and administrative expenses in the Company's consolidated results of operations.

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

	Year Ended	
	December 25, 2015	December 26, 2014
Net sales	$ 490,927	$ 562,918
Net loss	$ (9,161)	$ 13,371
Basic loss per share	$ (0.29)	$ 0.43
Diluted loss per share	$ (0.29)	$ 0.42

63

Ultra Clean Holdings, Inc.

Notes to Consolidated Financial Statements—(Continued)

The unaudited pro forma results above include adjustments related to the purchase price allocation and financing of the Marchi and Miconex acquisitions, primarily to increase amortization for the identifiable intangible assets, to increase interest expense for the additional debt incurred to complete the acquisition of Marchi, to reflect the related income tax effect of the pro forma adjustments and to adjust weighted shares issued as part of the acquisitions. The unaudited pro forma results for the year ended December 25, 2015 include acquisitions related costs of $0.6 million which are not expected to occur in future quarters. The unaudited pro forma condensed combined financial information has been prepared by management for illustrative purposes only and are not necessarily indicative of the condensed consolidated financial position or results of income in future periods or the results that actually would have been realized had UCT, Marchi and Miconex been a combined company during the specified periods. The unaudited pro forma condensed combined financial information does not reflect any operating efficiencies and/or cost savings that we may achieve with respect to the combined companies, or any liabilities that may result from integration activities.

5. Goodwill and Purchased Intangible Assets

The Company's methodology for allocating the purchase price relating to purchase acquisitions is determined through established and generally accepted valuation techniques. Goodwill is measured as the excess of the cost of the acquisition over the sum of the amounts assigned to tangible and identifiable intangible assets acquired less liabilities assumed. Goodwill and purchased intangible assets with indefinite useful lives are not amortized, but are reviewed for impairment at least annually and whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. If the carrying value of a reporting unit exceeds its fair value, the Company would then perform the second step of the impairment test in order to determine the implied fair value of the reporting unit's goodwill. If the Company determines that the carrying value of a reporting unit's goodwill exceeds its implied fair value, the Company would record an impairment charge equal to the difference. The process of evaluating the potential impairment of goodwill and intangible assets requires significant judgment. The Company regularly monitors current business conditions and other factors including, but not limited to, adverse industry or economic trends and lower projections of profitability that may impact future operating results.

As part of the Company's annual testing of goodwill impairment, in the fourth quarter of fiscal 2016, the Company performed the two-step impairment test of the Company's three reporting units for potential impairment. The Company utilized the discounted cash flow method of the income approach to estimate the fair values of each of the reporting units. The estimates used in the impairment testing were consistent with the discrete forecasts that the Company uses to manage its business, and, additionally, considered the developments that occurred since the dates of the acquisitions. Under the discounted cash flow method, cash flows beyond the discrete forecasts were estimated using terminal growth rates ranging from 4.0%—4.8%, which are considered to be the long-term earnings growth rates specific to the reporting units. The estimated future cash flows were discounted to present value using discount rates between 12.0%—17.0% that were the value-weighted average of the reporting units' estimated cost of equity and debt derived using both known and estimated market metrics. These discount rates were adjusted to reflect risk factors that considered both the timing and risks associated with the estimated cash flows for each of the respective reporting units. The tax rates used in the discounted cash flows reflected the international structure currently in place, which is consistent with the market participant perspective. The Company then allocated the fair values of the reporting units to the assets and liabilities of each of the reporting units. Based on the Company's analyses, the Company concluded that the fair value of each of the reporting units was greater than their carrying amount, including goodwill, and, therefore, the second step of the goodwill impairment test was not required.

Details of aggregate goodwill of the Company are as follows (in thousands):

	Gross Amount	Accumulated Impairment*	Net Carrying Amount
Year Ended December 30, 2016			
Goodwill	$ 119,291	$ (34,043)	$ 85,248
Year Ended December 25, 2015			
Goodwill	$ 119,291	$ (34,043)	$ 85,248

* Represents goodwill recorded for UCT in 2002 and Sieger Engineering in 2006, which was fully impaired in prior years.

Ultra Clean Holdings, Inc.

Notes to Consolidated Financial Statements—(Continued)

Details of goodwill and other intangible assets were as follows (in thousands):

	December 30, 2016			December 25, 2015		
	Goodwill	Intangible Assets	Total	Goodwill	Intangible Assets	Total
Carrying amount	$ 85,248	$ 37,024	$ 122,272	85,248	$ 42,782	$ 128,030

Purchased Intangible Assets

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

Details of purchased intangible assets were as follows (in thousands):

	As of December 30, 2016			As of December 25, 2015			
	Gross Carrying Amount	Accumulated Amortization	Carrying Value	Gross Carrying Amount	Accumulated Amortization	Carrying Value	Useful Life (in years)
AIT							
Customer relationships	$ 19,000	$ (17,058)	$ 1,942	$ 19,000	$ (15,298)	$ 3,702	7
Tradename	1,900	(1,900)	—	1,900	(1,900)	—	6
Intellectual property/know-how	1,600	(1,029)	571	1,600	(800)	800	7
Marchi							
Customer relationships	9,900	(1,898)	8,002	9,900	(907)	8,993	10
Tradename	1,170	(443)	727	1,170	(217)	953	6
Intellectual property/know-how	12,300	(2,643)	9,657	12,300	(1,264)	11,036	8-12
Miconex							
Customer relationships	8,800	(1,662)	7,138	8,800	(489)	8,311	7.5
UCT							
Tradename	8,987	—	8,987	8,987	—	8,987	
Total	$ 63,657	$ (26,633)	$ 37,024	$ 63,657	$ (20,875)	$ 42,782	

The Company amortizes its tradenames for AIT and Marchi and customer relationships intangible asset for AIT using an accelerated method over the estimated economic life of the assets, ranging from 6 to 10 years. The Company amortizes its intellectual property/know-how and customer relationships intangible assets for Marchi and Miconex on a straight-line basis with an estimated economic life of the assets ranging from 7 to 12 years. Amortization expense was approximately $5.8 million for the year ended December 30, 2016, $6.2 million for the year ended December 25, 2015, and $4.9 million for the year ended December 26, 2014.

In the fourth quarter of 2015, the Company wrote off the remaining book value of the tradename intangible acquired from AIT of $0.5 million as the Company no longer believed the AIT name has value. The Company also carries a UCT trade-name intangible asset of $9.0 million as a result of a previous acquisition. The Company concluded that the UCT trade-name intangible asset life is indefinite and is therefore not amortized. The Company concluded that the UCT trade-name as of December 30, 2016 is not impaired as there were no new events or changes in circumstances that would indicate that its carrying amount may not be recoverable.

65

Ultra Clean Holdings, Inc.

Notes to Consolidated Financial Statements—(Continued)

As of December 30, 2016, future estimated amortization expense is expected to be as follows:

	Amortization Expense (in thousands)
2017	$ 4,924
2018	4,582
2019	4,210
2020	3,682
2021	3,554
2022 and thereafter	7,085
Total	$ 28,037

6. Borrowing Arrangements

On February 2, 2015, the Company entered into a credit agreement (the "Credit Agreement") by and among the Company, certain of its subsidiaries and East West Bank and City National Bank (collectively, the "Lenders"). The credit agreement was amended on April 3, 2015 (as amended, the "Credit Agreement") to modify certain terms of the agreement. The Credit Agreement provides for a term loan in an aggregate principal amount of $40.0 million (the "Term Loan") and a revolving credit facility in an aggregate principal amount of $40.0 million (the "Revolving Credit Facility"), a letter of credit facility in the aggregate availability amount of $20.0 million (as a sublimit of such Revolving Credit Facility) (the "L/C Facility") and a swingline sub-facility in the aggregate availability amount of $5.0 million (as a sublimit of the Revolving Credit Facility) (together with the Term Loan, the Revolving Credit Facility and the L/C Facility, the "Senior Secured Credit Facility").

On February 2, 2015, the Company borrowed an aggregate of $40.0 million under the Term Loan and approximately $6.5 million under the Revolving Credit Facility. The borrowed funds were used to repay the outstanding balance to Silicon Valley Bank as lender under our prior loan agreement, which loan agreement was terminated in connection with this transaction. In addition, the Company expensed the unamortized debt issuance costs of approximately $0.7 million in the first quarter of 2015. On February 5, 2015, in order to finance the acquisition of Marchi, the Company borrowed $29.7 million under the Revolving Credit Facility.

As of December 30, 2016, the Term Loan consists of nine remaining quarterly installments of $2.9 million with the balance of the outstanding principal amount due at maturity, which is February 2, 2019. The Revolving Credit Facility is available through February 2, 2019. The Credit Agreement includes customary representations, warranties, covenants and events of default. The Company and certain of its subsidiaries have agreed to secure all of their obligations under the Credit Agreement by granting a first priority lien in substantially all of their respective personal property assets (subject to certain exceptions and limitations).

At the Company's option, borrowings under the Term Loan and Revolving Credit Facility (subject to certain limitations) bear interest at either a base rate or at the London Interbank Offered Rate ("LIBOR") (with the LIBOR

being adjusted for certain Eurocurrency reserve requirements, if any, as described in the Credit Agreement), plus, in each case, an applicable margin based on the Company's consolidated leverage ratio. All loans described above made on February 2, 2015 were initially base rate loans, carrying interest of 3.25%. The effective interest rate will be higher due to the incurrence of certain loan-related costs of $0.6 million that have been treated as a discount on the debt and amortized over the life of the loan.

66

Ultra Clean Holdings, Inc.

Notes to Consolidated Financial Statements—(Continued)

As of December 30, 2016, the interest rates on the outstanding Term Loan and Revolving Credit facility were 3.38% (2.75% fixed and 0.63% variable based on LIBOR) and 3.75% fixed, respectively. In order to manage interest rate risk on the variable component of the New Term Loan the Company entered into an interest rate swap with the Lenders in September 2015 with a total notional amount of $20.0 million pursuant to which the Company pays the counterparty a fixed rate of 0.99% and receives interest at a variable rate equal to the LIBOR rate the Company is required to pay under its New Term Loan, or 0.63%, as of December 30, 2016. This interest rate swap effectively locked in a fixed interest rate of 3.49% on $14.0 million of the $26.2 million term loan balance outstanding as of December 30, 2016, with a decreasing notional amount based on prorated quarterly principal payments over the remaining period of the term loan.

The Credit Agreement requires the Company to maintain certain financial covenants including a consolidated fixed charge coverage ratio (as defined in the Credit Agreement) of at least 1.25 to 1.00 starting with the end of the first quarter of fiscal 2015 and a consolidated leverage ratio (as defined in the Credit Agreement) no greater than 3.5 to 1.00 starting with the end of the first quarter of fiscal 2015. The Credit Agreement also includes other customary affirmative and negative covenants. In December 2015, the Credit Agreement was amended to add a covenant requiring the Company to maintain a minimum cash balance of $35.0 million at the end of each quarter. The Company was in compliance with all covenants for the quarter ended December 30, 2016.

The Credit Agreement also contains provisions requiring the following mandatory prepayments (subject to certain exceptions and limitations): annual prepayments in an amount equal to (a) 33% of excess cash flow (as defined in the Credit Agreement) if the aggregate outstanding principal amount of the New Term Loan equals or exceeds $20.0 million and (b) 25% of excess cash flow if the aggregate outstanding principal amount of the New Term Loan equals or exceeds $10.0 million but is less than $20.0 million. The Credit Agreement also restricts us from declaring or paying any cash dividends.

The fair value of the Company’s long term debt was based on Level 2 inputs, and fair value was determined using quoted prices for similar liabilities in inactive markets. The fair value of the Company’s outstanding borrowings under the Company’s revolving credit facility was based on Level 2 inputs, and fair value was determined using inputs other than quoted prices that are observable, specifically, discounted cash flows of expected payments at current borrowing rates. The Company’s carrying value approximates fair value for the Company’s long term debt and revolving credit facility.

As of December 30, 2016, the Company has outstanding amounts under the Term Loan and Revolving Credit Facility of $26.2 million and $36.2 million, respectively, which are gross of unamortized debt issuance costs of $0.3 million, for a total debt balance with this credit facility of $62.4 million.

In conjunction with our acquisition of Miconex in July 2015, the Company has a credit agreement with a local bank in the Czech Republic that provides for a term loan in the aggregate of 0.8 million euros and a revolving credit facility in the aggregate of up to 8.3 million euros. The credit agreement requires Miconex to maintain certain financial covenants, including a debt-to-earnings-before-interest-depreciation-and-amortization ratio no greater than 3.00 to 1.00 and an equity ratio of at least 15%. This agreement also includes other affirmative and negative covenants. As of December 30, 2016, Miconex was in compliance with all of its covenants.

As of December 30, 2016, Miconex had outstanding amounts under the term loan and the revolving credit facility of 0.4 million euros (approximately $0.5 million) and 4.9 million euros (approximately $5.2 million), respectively, for a

total of $5.7 million, with interest rates ranging from 1.3% to 2.3% plus a variable rate based on the Euro Interbank Offered Rate with due dates ranging from 2017 to 2020. The Credit facility expires on March 31, 2020.

As of December 30, 2016, the Company's total bank debt was $68.1 million. As of December 30, 2016, the Company has $3.8 million and 3.3 million euros (approximately $3.5 million) available to borrow on our revolving loans in the U.S. and Czech Republic, respectively.

67

Ultra Clean Holdings, Inc.

Notes to Consolidated Financial Statements—(Continued)

7. Income Taxes

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

	Year Ended December 30, 2016	December 25, 2015	December 26, 2014
U.S. operations	$ (17,459)	$ (10,910)	$ (452)
Foreign operations	36,406	14,517	16,782
Total pretax income	$ 18,947	$ 3,607	$ 16,330

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

	Year Ended December 30, 2016	December 25, 2015	December 26, 2014
Current:			
Federal	$—	$ (52)	$ (451)
State	110	158	118
Foreign	5,321	3,777	2,839
Total current	5,431	3,883	2,506
Deferred:			
Federal	1,706	12,043	(404)
State	202	714	2,722
Foreign	1,557	(2,301)	149
Total deferred	3,465	10,456	2,467
Total provision	$ 8,896	$ 14,339	$ 4,973

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

	Year Ended December 30, 2016	December 25, 2015
Net non-current deferred tax asset:		
Inventory valuation and basis difference	$ 3,359	$ 2,999
State taxes	49	50

Deferred rent	20	69
Other accrued expenses	3,516	3,867
Depreciation	1,347	1,697
Intangibles	5,105	3,799
Net operating losses	9,588	7,281
Research & other credits	980	20
	23,964	19,782
Valuation allowance	(23,844)	(18,723)
Net non-current deferred tax asset	120	1,059
Total deferred tax asset	120	1,059
Current deferred tax liability:		
Undistributed earnings	(1,126)	(507)
Non-current deferred tax liability:		
Goodwill	(7,556)	(5,649)
Net deferred tax asset (liability)	$ (8,562)	$ (5,097)

68

Ultra Clean Holdings, Inc.

Notes to Consolidated Financial Statements—(Continued)

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

	Year Ended					
	December 30, 2016		December 25, 2015		December 26, 2014	
Federal income tax provision at statutory rate	34.0	%	34.0	%	34.0	%
State income taxes, net of federal benefit	(0.6	)%	(3.1	)%	0.2	%
Effect of foreign operations	(15.3	)%	(102.5	)%	(19.8	)%
Change in valuation allowance	30.8	%	445.8	%	11.3	%
China withholding taxes	—	%	10.3	%	2.3	%
Acquisition related costs	1.0	%	8.3	%	—	%
Other	(3.0	)%	4.7	%	2.5	%
Effective Tax Rate	46.9	%	397.5	%	30.5	%

The Company earns a significant amount of its operating income outside the United States, which is deemed to be indefinitely reinvested in foreign jurisdictions, except as disclosed below. As a result, most of the Company's cash and cash equivalents are held by foreign subsidiaries. The Company currently does not intend nor foresee a need to repatriate any other funds to the U.S., except for a portion of current year earnings from one of our Singapore subsidiaries. The Company expects domestic cash and cash flows from operations to continue to be sufficient to fund its domestic operating activities and cash commitments for investing and financing activities, such as debt repayment and capital expenditures, for the foreseeable future. If the Company should require more capital in the U.S. than is generated by its domestic operations, for example to fund significant discretionary activities such as business acquisitions, the Company could or raise capital in the United States through debt or equity issuances. These alternatives could result in higher effective tax rates, increased interest expense, or dilution of our earnings. The Company has borrowed funds domestically and continues to believe it has the ability to do so at reasonable interest rates. The Company does not provide for U.S. taxes on its undistributed earnings of foreign subsidiaries that it intends to invest indefinitely outside the U.S., unless such taxes are otherwise required under U.S. tax law. In 2016, the Company determined that a portion of the current year earnings of one of its China subsidiaries may be remitted in the future to one of its foreign subsidiaries outside of mainland China and, accordingly, the Company provided for the related withholding taxes in its consolidated financial statements. As of December 30, 2016, the Company had undistributed earnings of foreign subsidiaries that are indefinitely invested outside of the U.S. of approximately $80.6 million. It is not practicable to determine the income tax liability that might be incurred if these earnings were to be distributed.

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

Balance as of December 26, 2014	$ 356
Increases related to prior year tax positions	—
Increases related to current year tax positions	17
Releases due to settlements	(36)

Balance as of December 25, 2015		337
Decreases related to prior year tax positions		(28)
Increases related to current year tax positions		13
Expiration of the statute of limitations for the assessment of taxes		(24)
Balance as of December 30, 2016	$	298

69

Ultra Clean Holdings, Inc.

Notes to Consolidated Financial Statements—(Continued)

The Company's gross liability for unrecognized tax benefits as of December 30, 2016 and December 25, 2015 was $0.3 million and $0.4 million, respectively. Increases or decreases to interest and penalties on uncertain tax positions are included in the income tax provision in the Consolidated Statements of Operations. Interest related to uncertain tax positions for the periods ended December 30, 2016, December 25, 2015 and December 26, 2014 was considered to be de minimis. Although it is possible some of the unrecognized tax benefits could be settled within the next twelve months, the Company cannot reasonably estimate the outcome at this time.

Tax attributes related to equity award windfall deductions are not recorded until they result in a reduction of cash tax payable. As of December 30, 2016, the benefit of the federal net operating losses from windfall deductions were excluded from the deferred tax asset balance as of December 30, 2016. As of December 30, 2016, the benefit of federal and California net operating loss deductions of $4.7 million and $1.7 million, respectively, will be recorded to additional paid-in capital when it reduces cash taxes payable.

As of December 30, 2016, the Company had federal and California net operating loss carryforwards ("NOLs") of approximately $24.2 million and $24.0 million, respectively. The federal NOLs begin expiring after 2035 and the California NOLs begin expiring after 2031.

The Company files income tax returns in the U.S. federal jurisdiction, various states and foreign jurisdictions. The Company's 2013 through 2015 federal income tax returns are open to audit through the statute of limitations by the Internal Revenue Service. The Company's 2011 through 2015 state income tax returns are open to audit by the California Franchise Tax Board. The Company is also subject to examination in various other jurisdictions for various periods.

8. Stockholders' Equity

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

9. Employee Benefit Plans

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

The stockholders of the Company approved amendments to the Company's 2003 Stock Incentive Plan, which included an increase in shares available for issuance by 1,500,000 and 3,100,000 common shares which are more fully described in the Company's definitive proxy statements filed on April 23, 2010 and May 27, 2013, respectively. At December 30, 2016, 667,034 shares were available for future grants under the 2003 Incentive Plan.

Ultra Clean Holdings, Inc.

Notes to Consolidated Financial Statements—(Continued)

Option activity under the 2003 Incentive Plan is as follows:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value (in thousands)
Outstanding, December 27, 2013	1,209,119	$ 7.86	2.86	$ 3,976
Exercised	(343,947)	5.11		
Cancelled	(11,621)	14.40		
Outstanding, December 26, 2014	853,551	$ 8.87	1.35	$ 1,798
Exercised	(339,303)			
Cancelled	(198,600)			
Outstanding, December 25, 2015	315,648	$ 10.02	2.06	$ 216
Exercised	(101,700)	3.91		
Cancelled	(77,489)	12.54		
Outstanding, December 30, 2016	136,459	$ 13.15	0.57	$ 135
Options exercisable and expected to vest, December 30, 2016	136,459	$ 13.15	0.57	$ 135

The following table summarizes information with respect to options outstanding and exercisable at December 30, 2016:

Range of Exercise Price	Shares Outstanding	Weighted Average Remaining Average Life (Years)	Weighted Average Exercise Price	Shares Exercisable	Weighted Average Exercise Price
$ 1.17	15,784	2.24	$ 1.17	15,784	$ 1.17
$12.99 – 13.71	10,500	0.72	13.09	10,500	13.09
$14.31 – 14.90	110,175	0.32	14.87	110,175	14.87
Grand Total	136,459	0.57	$ 13.15	136,459	$ 13.15

For the fiscal years 2016, 2015 and 2014, the intrinsic value of the Company’s exercised stock options was $0.1 million, $0.2 million and $1.8 million respectively. For the fiscal years 2016, 2015 and 2014, the Company’s vested share recognized expense was zero. There was no stock-based compensation expense for fiscal year 2016, 2015 and

2014 attributable to stock options as all outstanding options were fully vested at the beginning of the 2014 fiscal year.

Restricted Stock Units and Restricted Stock Awards — In fiscal years 2016, 2015 and 2014, the Company granted 52,000, 56,000 and 47,000 shares, respectively, of common stock to its board members under the 2003 Incentive Plan. These Restricted Share Awards (RSAs) vest on the earlier of 1) the next Annual Shareholder Meeting, or 2) 365 days from date of grant. The total unamortized expense of the Company's unvested RSAs as of December 30, 2016, is approximately $0.1 million. During the first quarter of fiscal year 2008, the Company began granting stock awards in the forms of Restricted Stock Units (RSUs) and Performance Stock Units (PSUs) to its employees as part of the Company's long term equity compensation plan. These stock awards are granted to employees with a unit purchase price of zero dollars and typically vest over three years, subject to the employee's continued service with the Company and, in the case of PSUs, subject to achieving certain performance goals. The expected cost of the grant is recognized over the service period, and is reduced for estimated forfeitures and, in the case of PSUs, is reduced based on estimated achievement of performance goals. During the year ended December 30, 2016, the Company approved and granted 1,092,360 RSU's to employees with a weighted average grant date fair value of $6.11 per share and 280,500 PSUs with a weighted average grant date fair value of $5.47 per share. As of December 30, 2016, $6.3 million of unrecognized stock-based compensation cost, net of estimated forfeitures, related to RSUs remains to be amortized and is expected to be recognized over an estimated period of 1.8 years. The unvested amount is subject to forfeiture, until fully vested. At December 30, 2016, 1,757,507 shares were subject to forfeiture.

Ultra Clean Holdings, Inc.

Notes to Consolidated Financial Statements—(Continued)

The following table summarizes the Company's restricted stock unit and restricted stock award activity through the year ended December 30, 2016:

	Number of Shares	Aggregate Intrinsic Value (in thousands)
Unvested restricted stock units and restricted stock awards at December 27, 2014	1,078,279	$ 9,673
Granted	875,500	
Vested	(430,380)	
Forfeited	(255,457)	
Unvested restricted stock units and restricted stock awards at December 25, 2015	1,267,942	$ 6,563
Granted	1,432,860	
Vested	(675,591)	
Forfeited	(267,704)	
Unvested restricted stock units and restricted stock awards at December 30, 2016	1,757,507	$ 16,466
Vested and expected to vest restricted stock units and restricted stock awards	1,446,944	$ 14,035

Employee Stock Purchase Plan — In 2004 the Company adopted an Employee Stock Purchase Plan ("ESPP") and is authorized to issue 555,343 shares of common stock under the ESPP. The ESPP permits employees to purchase common stock at a discount through payroll withholdings at certain specified dates (purchase period) within a defined offering period. The purchase price is 95% of the fair market value of the common stock at the end of the purchase period and is intended to qualify as an "employee stock purchase plan" under Section 423 of the Internal Revenue Code. There were 32,533 shares issued under the ESPP during the year ended December 30, 2016.

Employee Savings and Retirement Plan — The Company sponsors a 401(k) savings and retirement plan (the "401(k) Plan") for all employees who meet certain eligibility requirements. Participants could elect to contribute to the 401(k) Plan, on a pre-tax basis, up to 25% of their salary to a maximum of $18,000. The Company may make matching contributions of up to 3% of employee contributions based upon eligibility. The Company made approximately $1.1 million, $1.0 million, and $0.9 million discretionary employer contributions to the 401(k) Plan in the years ended December 30, 2016, December 25, 2015 and December 26, 2014, respectively.

Ultra Clean Holdings, Inc.

Notes to Consolidated Financial Statements—(Continued)

10. Net Income (Loss) Per Share

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

	Year Ended		
	December 30, 2016	December 25, 2015	December 26, 2014
Numerator:			
Net income (loss)	$ 10,051	$ (10,732)	$ 11,357
Denominator:			
Shares used in computation — basic:			
Weighted average common shares outstanding	32,632	31,564	29,301
Shares used in computation — diluted:			
Weighted average common shares outstanding	32,632	31,564	29,301
Dilutive effect of common shares outstanding subject to repurchase	485	—	396
Dilutive effect of options outstanding	33	—	239
Shares used in computing diluted net income (loss) per share	33,150	31,564	29,936
Net income (loss) per share — basic	$ 0.31	$ (0.34)	$ 0.39
Net income (loss) per share — diluted	$ 0.30	$ (0.34)	$ 0.38

The Company had securities outstanding which could potentially dilute basic earnings per share in the future, but the incremental shares from the assumed exercise of these securities were excluded in the computation of diluted net income per share, as their effect would have been anti-dilutive. Such outstanding securities consist of the following (in thousands):

	Year Ended		
	December 30, 2016	December 25, 2015	December 26, 2014
Outstanding options	174	261	266

11. Geographical Information

The Company's principal markets include North America, Asia and Europe. Sales by geographic area represent sales to unaffiliated customers and are based upon the location to which the products were shipped. The following table sets

forth revenue by geographic area (in thousands):

	Year Ended		
Sales	December 30, 2016	December 25, 2015	December 26, 2014
United States	$ 308,129	$ 313,090	$ 372,200
China	13,152	21,464	64,376
Singapore	175,843	103,176	55,491
Austria	35,729	12,568	—
Others	29,906	18,805	21,890
Total	$ 562,759	$ 469,103	$ 513,957

At December 30, 2016 and December 25, 2015, approximately $8.1 million and $10.0 million, respectively, of the Company's long-lived assets were located in China, Singapore and the Czech Republic, and the remaining balances were located in the United States.

73

Ultra Clean Holdings, Inc.

Notes to Consolidated Financial Statements—(Continued)

12. Commitments and Contingencies

The Company had commitments to purchase inventory totaling approximately $94.6 million at December 30, 2016.

The Company leases properties domestically in Hayward, California, Austin, Texas, Chandler, Arizona and South San Francisco, California and internationally in China, Singapore, Philippines and the Czech Republic. The Company leases certain of its facilities under non-cancelable leases, which expire on various dates through 2023.

As of December 30, 2016, future minimum payments under these operating leases were as follows (in thousands):

Fiscal year	
2017	$ 6,000
2018	5,246
2019	4,269
2020	4,226
2021	3,737
Thereafter	3,311
Total minimum lease payments	$ 26,789

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 statement of operations and does not believe that any of these proceedings or other claims will have a material adverse effect on its consolidated financial condition, results of operations or cash flows.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure
Not Applicable

Item 9A. Controls and Procedures
Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our chief executive officer ("CEO") and our chief financial officer ("CFO"), evaluated the effectiveness of our disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended (the "Exchange Act") as of December 30, 2016. Based upon the evaluation, our management, including our CEO and our CFO, concluded that the design and operation of our disclosure controls and procedures were effective at the reasonable assurance level to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act (i) is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms and (ii) is accumulated and communicated to our management, including our CEO and CFO, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting

As required by Rule 13a-15(d) of the Exchange Act, our management, including our CEO and CFO, conducted an evaluation of our "internal control over financial reporting" as defined in Exchange Act Rule 13a-15(f) to determine whether any changes in our internal control over financial reporting occurring during the fourth quarter of fiscal year 2015 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. Based on that evaluation, there have been no such changes during the fourth quarter of fiscal year 2016.

Management's Report on Internal Control Over Financial Reporting

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

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officers, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013). The objective of this evaluation was to determine whether the Company's internal control over financial reporting was effective as of December 30, 2016. Our assessment included internal control over financial reporting at Marchi Thermal Systems, Inc., which was acquired on February 5, 2015 and whose financial statements constitute 2.1% and 3.3% of the Company's consolidated total assets (excluding $36.8 million of goodwill and intangible assets, net) and revenue, respectively for the year ended December 30, 2016. Our assessment also included internal controls over financial reporting at MICONEX s.r.o., which was acquired on July 31, 2015 and whose financial statements constitute 4.4% and 7.5% of the Company's consolidated total assets (excluding $18.1 million of goodwill and intangible assets, net) and revenue, respectively for the year ended December 30, 2016. Based on our evaluation under the framework set forth in Internal Control — Integrated Framework (2013), our management concluded that our internal control over financial reporting was effective as of December 30, 2016.

The effectiveness of our internal control over financial reporting as of December 30, 2016 has been audited by Moss Adams LLP, an independent registered public accounting firm, as stated in their report which appears in this Form

10-K.

Item 9B. Other Information

None.

PART III

Pursuant to Paragraph G(3) of the General Instructions to Form 10-K, portions of the information required by Part III of Form 10-K are incorporated by reference from our definitive Proxy Statement to be filed with the SEC in connection with our 2017 Annual Meeting of Stockholders.

Item 10. Directors and Executive Officers of the Registrant
The information required by this item concerning directors, including our audit committee financial expert, is incorporated by reference to the section entitled, “Election of Directors” in our Proxy Statement for the 2017 Annual Meeting of Stockholders.

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

The information required by this item with respect to Section 16(a) beneficial reporting compliance is incorporated by reference to the section entitled, “Section 16(a) Beneficial Ownership Reporting Compliance” in our Proxy Statement for the 2017 Annual Meeting of Stockholders.

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

Item 11. Executive Compensation
The information required by this item regarding the security ownership of certain beneficial owners is incorporated by reference to the sections entitled “Executive Officer Compensation” and “Election of Directors” in our Proxy Statement for the 2017 Annual Meeting of Stockholders.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters
The information required by this item is incorporated by reference to the sections entitled “Security Ownership of Certain Beneficial Owners and Management” in our Proxy Statement for the 2017 Annual Meeting of Stockholders.

The table below summarizes our equity plan information as of December 30, 2016:

Plan Category	(a) Number of Securities to be Issued Upon Exercise/Vest of Outstanding Options, Awards Warrants and Rights	(b) Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights	(c) (1) Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a)
Equity compensation plans approved by security holders:	1,987,390	$ 9.89	667,034

Equity compensation plans not approved by security holders	—	—	—
Total	1,987,390	$ 9.89	667,034

(1) Consists of the 2003 Stock Incentive Plan and, for purposes of column (c), the Employee Stock Purchase Plan. Since restricted stock units do not have an exercise price, they are excluded from the calculations in column (b) of the table above.

76

Item 13. Certain Relationships and Related Transactions

The information required by this item is incorporated by reference to the section entitled “Certain Relationships and Related Party Transactions” in our Proxy Statement for the 2017 Annual Meeting of Stockholders.

Item 14. Principal Accountant Fees and Services

The information required by this item is incorporated by reference to the section entitled “Ratification of the Appointment of Our Independent Registered Public Accounting Firm” in our Proxy Statement for the 2017 Annual Meeting of Stockholders.

77

Part IV

Item 15. Exhibits, Financial Statement Schedules
(a) The following documents are filed as part of this Form 10-K:

1. Financial Statements:

	Form 10-K Page No.
Report of Independent Registered Public Accounting Firm	44
Consolidated Balance Sheets	46
Consolidated Statements of Operations	47
Consolidated Statements of Comprehensive Income	48
Consolidated Statements of Stockholders' Equity	49
Consolidated Statements of Cash Flows	50
Notes to Consolidated Financial Statements	51

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

3. Exhibits

78

Exhibit Index

Exhibit Number	Description	Form	File No.	Filing Date	Exhibit	Filed Herewith
2.1	Purchase Agreement dated as of July 28, 2015 between Ultra Clean Holdings, Inc., Charlesmost s.r.o. and Stenen one a.s., Juves one a.s. relating to the purchase and sale of 100% of the shareholding interest of MICONEX s.r.o.	8-K	000-50646	August 3, 2015	2.1	
3.1	Amended and Restated Certificate of Incorporation of Ultra Clean Holdings, Inc.	S-1/A	333-11904	March 2, 2004	3.1	
3.2	Amended and Restated Bylaws of Ultra Clean Holdings, Inc.	10-Q	000-50646	May 2, 2016	3.1	
4.1	Specimen Stock Certificate	S-1/A	333-11904	March 8, 2004	4.1	
4.2	Ultra Clean Holdings, Inc. 2003 Amended and Restated Stock Incentive Plan (amended as of May 22, 2013)	8-K	000-50646	May 24, 2013	10.1	
4.3	Form of Stock Option Agreement	S-1/A	333-11904	March 8, 2004	10.6	
10.1	Credit Agreement, dated as of February 2, 2015, among Ultra Clean Holdings, Inc., East West Bank, City National Bank and the several lenders from time to time party thereto	8-K	000-50646	February 6, 2015	10.1	
10.2	First Amendment to the Credit Agreement, dated April 3, 2015 among Ultra Clean Holdings, Inc., East West Bank, City National Bank and the several lenders from time to time party thereto	10-Q	000-50646	May 4, 2015	10.3	
10.3	Second Amendment to Credit Agreement, dated May 1, 2015, among Ultra Clean Holdings, Inc., East West Bank, City National Bank and the several lenders from time to time party thereto					
10.5	Third Amendment to Credit Agreement, dated December 24, 2015, among Ultra Clean Holdings, Inc., East West Bank, City National Bank and the several lenders from time to time party thereto	8-K	000-50646	December 29, 2015	10.1	

Exhibit Number	Description	Form	File No.	Filing Date	Exhibit	Filed Herewith
10.6	Guarantee and Collateral Agreement in favor of East West Bank, dated as of February 2, 2015, made by Ultra Clean Holdings, Inc., Ultra Clean Technology Systems and Service, Inc., American Integration Technologies LLC, UCT Sieger Engineering LLC, Integrated Flow Systems LLC, Drake Acquisition Subsidiary, Inc. and the other Grantors referred to therein and from time to time party thereto	8-K	000-50646	February 6, 2015	10.2	
10.7†	Employee Stock Purchase Plan (Restated as of October 21, 2004)	10-Q	000-50646	November 8, 2004	10.9.1	
10.8†	Form of Indemnification Agreement between Ultra Clean Holdings, Inc. and each of its directors and executive officers	S-1/A	333-11904	March 2, 2004	10.10	
10.9†	Form of Award Agreement	S-1/A	333-11904	March 8, 2004	10.13	
10.10†	Severance Policy for Executive Officers(revised)	10-K	000-50646	March 19, 2009	10.16	
10.11†	Form of Restricted Stock Unit Award Agreement	10-K	000-50646	March 12, 2008	10.18	
10.12†	Change in Control Severance Agreement dated as of July 31, 2009 by and between Ultra Clean Holdings, Inc. and Kevin C. Eichler	10-Q	000-50646	November 6, 2009	10.1	
10.13†	Letter Agreement between the Company and Lavi Lev dated November 18, 2011	10-Q	000-50646	May 3, 2013	10.1	
10.14†	Offer Letter between the Company and James P. Scholhamer dated January 3, 2015	8-K	000-50646	January 5, 2015	99.1	
10.15†	Change in Control Severance Agreement dated as of January 19, 2015 by and between Ultra Clean Holdings, Inc. and James P. Scholhamer	10-K	000-50646	March 11, 2015	10.18	
10.16†	Promotion Letter between the Company and Sheri Brumm dated February 18, 2016	10-K	000-50646	March 9, 2016	10.18	
10.17†	Offer Letter between the Company and Sheri Brumm dated July 7, 2016	8-K	000-50646	July 12, 2016	99.1	

10.18†	Change in Control Severance Agreement between the Company and Sheri Brumm dated July 7, 2016	8-K	000-50646	July 12, 2016	99.2
10.19†	Transition Agreement and Release of Claims between the Company and Kevin C. Eichler dated July 7, 2016	8-K	000-50646	July 12, 2016	99.3
16.1	Letter of Deloitte & Touche LLP to the Securities and Exchange Commission, dated April 3, 2015 regarding change in registrant's certifying accountant	8-K	000-50646	April 3, 2015	16.1

Exhibit Number	Description	Form	File No.	Filing Date	Exhibit	Filed Herewith
21.1	Subsidiaries of Ultra Clean Holdings, Inc.					X
23.1	Consent of Moss Adams LLP, Independent Registered Public Accounting Firm					X
23.2	Consent of Deloitte & Touche LLP, Independent Registered Public Accounting Firm					X
24.1	Power of Attorney (included on signature page)					X
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.					X
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.					X
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002					X
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002					X
101.INS	XBRL Instance Document					X
101.SCH	XBRL Taxonomy Extension Schema Document					X
101.CAL	XBRL Taxonomy Calculation Linkbase Document					X
101.DEF	XBRL Taxonomy Definition Linkbase Document					X
101.LAB	XBRL Taxonomy Label Linkbase Document					X
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document					X

Đenotes management contract or compensatory plan.

Item 16. Form 10-K Summary

None

81

SIGNATURES

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

Ultra Clean Holdings, Inc.

By: /S/ JAMES P. SCHOLHAMER
James P. Scholhamer
Chief Executive Officer

Date: March 15, 2017

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

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

Signature	Title	Date
/S/ CLARENCE L. GRANGER	Chairman	March 15, 2017
Clarence L. Granger		
/S/ JAMES P. SCHOLHAMER	Chief Executive Officer and Director	March 15, 2017
James P. Scholhamer	(Principal Executive Officer)	
/S/ SHERI BRUMM	Chief Financial Officer and Senior Vice	March 15, 2017
Sheri Brumm	President of Finance (Principal Financial	
	Officer and Principal Accounting Officer)	
/S/ LEONID MEZHVINSKY	Director	March 15, 2017
Leonid Mezhvinsky		
/S/ EMILY M. LIGGETT	Director	March 15, 2017

Emily M. Liggett

/S/ THOMAS T. EDMAN	Director	March 15, 2017
Thomas T. Edman		
/S/ BARBARA V. SCHERER	Director	March 15, 2017
Barbara V. Scherer		
/S/ DAVID T. IBNALE	Director	March 15, 2017
David T. IbnAle		
/S/ JEFF ANDRESON	Director	March 15, 2017
Jeff Andreson		

Exhibit Index

Exhibit Number	Description	Form	File No.	Filing Date	Exhibit	Filed Herewith
2.1	Purchase Agreement dated as of July 28, 2015 between Ultra Clean Holdings, Inc., Charlesmost s.r.o. and Stenen one a.s., Juves one a.s. relating to the purchase and sale of 100% of the shareholding interest of MICONEX s.r.o.	8-K	000-50646	August 3, 2015	2.1	
3.1	Amended and Restated Certificate of Incorporation of Ultra Clean Holdings, Inc.	S-1/A	333-11904	March 2, 2004	3.1	
3.2	Amended and Restated Bylaws of Ultra Clean Holdings, Inc.	10-Q	000-50646	May 2, 2016	3.1	
4.1	Specimen Stock Certificate	S-1/A	333-11904	March 8, 2004	4.1	
4.2	Ultra Clean Holdings, Inc. 2003 Amended and Restated Stock Incentive Plan (amended as of May 22, 2013)	8-K	000-50646	May 24, 2013	10.1	
4.3	Form of Stock Option Agreement	S-1/A	333-11904	March 8, 2004	10.6	
10.1	Credit Agreement, dated as of February 2, 2015, among Ultra Clean Holdings, Inc., East West Bank, City National Bank and the several lenders from time to time party thereto	8-K	000-50646	February 6, 2015	10.1	
10.2	First Amendment to the Credit Agreement, dated April 3, 2015 among Ultra Clean Holdings, Inc., East West Bank, City National Bank and the several lenders from time to time party thereto	10-Q	000-50646	May 4, 2015	10.3	
10.3	Second Amendment to Credit Agreement, dated May 1, 2015, among Ultra Clean Holdings, Inc., East West Bank, City National Bank and the several lenders from time to time party thereto					
10.5	Third Amendment to Credit Agreement, dated December 24, 2015, among Ultra Clean Holdings, Inc., East West Bank, City National Bank and the several lenders from time to time party thereto	8-K	000-50646	December 29, 2015	10.1	

83

Exhibit Number	Description	Form	File No.	Filing Date	Exhibit	Filed Herewith
10.6	Guarantee and Collateral Agreement in favor of East West Bank, dated as of February 2, 2015, made by Ultra Clean Holdings, Inc., Ultra Clean Technology Systems and Service, Inc., American Integration Technologies LLC, UCT Sieger Engineering LLC, Integrated Flow Systems LLC, Drake Acquisition Subsidiary, Inc. and the other Grantors referred to therein and from time to time party thereto	8-K	000-50646	February 6, 2015	10.2	
10.7†	Employee Stock Purchase Plan (Restated as of October 21, 2004)	10-Q	000-50646	November 8, 2004	10.9.1	
10.8†	Form of Indemnification Agreement between Ultra Clean Holdings, Inc. and each of its directors and executive officers	S-1/A	333-11904	March 2, 2004	10.10	
10.9†	Form of Award Agreement	S-1/A	333-11904	March 8, 2004	10.13	
10.10†	Severance Policy for Executive Officers(revised)	10-K	000-50646	March 19, 2009	10.16	
10.11†	Form of Restricted Stock Unit Award Agreement	10-K	000-50646	March 12, 2008	10.18	
10.12†	Change in Control Severance Agreement dated as of July 31, 2009 by and between Ultra Clean Holdings, Inc. and Kevin C. Eichler	10-Q	000-50646	November 6, 2009	10.1	
10.13†	Letter Agreement between the Company and Lavi Lev dated November 18, 2011	10-Q	000-50646	May 3, 2013	10.1	
10.14†	Offer Letter between the Company and James P. Scholhamer dated January 3, 2015	8-K	000-50646	January 5, 2015	99.1	
10.15†	Change in Control Severance Agreement dated as of January 19, 2015 by and between Ultra Clean Holdings, Inc. and James P. Scholhamer	10-K	000-50646	March 11, 2015	10.18	
10.16†	Promotion Letter between the Company and Sheri Brumm dated February 18, 2016	10-K	000-50646	March 9, 2016	10.18	
10.17†	Offer Letter between the Company and Sheri Brumm dated July 7, 2016	8-K	000-50646	July 12, 2016	99.1	

10.18†	Change in Control Severance Agreement between the Company and Sheri Brumm dated July 7, 2016	8-K	000-50646	July 12, 2016	99.2
10.19†	Transition Agreement and Release of Claims between the Company and Kevin C. Eichler dated July 7, 2016	8-K	000-50646	July 12, 2016	99.3
16.1	Letter of Deloitte & Touche LLP to the Securities and Exchange Commission, dated April 3, 2015 regarding change in registrant's certifying accountant	8-K	000-50646	April 3, 2015	16.1

Exhibit Number	Description	Form	File No.	Filing Date	Exhibit	Filed Herewith
21.1	Subsidiaries of Ultra Clean Holdings, Inc.					X
23.1	Consent of Moss Adams LLP, Independent Registered Public Accounting Firm					X
23.2	Consent of Deloitte & Touche LLP, Independent Registered Public Accounting Firm					X
24.1	Power of Attorney (included on signature page)					X
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.					X
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.					X
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002					X
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002					X
101.INS	XBRL Instance Document					X
101.SCH	XBRL Taxonomy Extension Schema Document					X
101.CAL	XBRL Taxonomy Calculation Linkbase Document					X
101.DEF	XBRL Taxonomy Definition Linkbase Document					X
101.LAB	XBRL Taxonomy Label Linkbase Document					X
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document					X

Đenotes management contract or compensatory plan.

85