CENTRAL FEDERAL CORP
Form DEF 14A
March 27, 2008

Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 14A
(RULE 14a-101)

INFORMATION REQUIRED IN PROXY STATEMENT
SCHEDULE 14A INFORMATION
PROXY STATEMENT PURSUANT TO SECTION 14(a) OF THE SECURITIES EXCHANGE ACT OF 1934

Filed by the Registrant þ

Filed by a Party other than the Registrant o

Check the appropriate box:

o Preliminary Proxy Statement
o Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
þ Definitive Proxy Statement
o Definitive Additional Materials
o Soliciting Material Pursuant to Section 240.14a-12

Central Federal Corporation
(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if Other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

þ No fee required.

o Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

o Fee paid previously with preliminary materials.

o Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

Table of Contents

2923 Smith Road Fairlawn, Ohio 44333 (330) 666-7979

April 15, 2008

Fellow Shareholders:

You are cordially invited to attend the Annual Meeting of shareholders of Central Federal Corporation which will be held at Fairlawn Country Club, located at 200 North Wheaton Road, Fairlawn, Ohio, on Thursday, May 15, 2008 at 10:00 a.m., local time.

The attached notice of the Annual Meeting and proxy statement describe the formal business to be transacted at the Meeting. Directors and officers of the Company, as well as a representative of Crowe Chizek and Company LLC, the Company s independent registered public accounting firm, will be present at the Meeting to respond to any questions shareholders may have regarding the business to be transacted. In addition, the Meeting will include management s report on the Company s financial performance for 2007.

The Board of Directors of Central Federal Corporation has determined that matters to be considered at the Annual Meeting are in the best interests of the Company and its shareholders, **and the Board unanimously recommends that you vote FOR the nominees as directors specified under Proposal 1, and FOR ratification of the appointment of Crowe Chizek and Company LLC as independent registered public accounting firm for the Company for 2008 as specified under Proposal 2.**

Your vote is very important. Whether or not you expect to attend, please read the enclosed proxy statement and then complete, sign and return the enclosed proxy card promptly in the postage-paid envelope provided so that your shares will be represented. If you attend the Meeting, you may vote in person even if you have previously mailed a proxy card.

On behalf of the Board of Directors and all of the employees, thank you for your continued interest and support.

Sincerely yours,

Mark S. Allio
Chairman, President and Chief Executive Officer

2923 Smith Road
Fairlawn, Ohio 44333

TABLE OF CONTENTS

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS
PROXY STATEMENT
VOTING PROCEDURES
CORPORATE GOVERNANCE
PROPOSAL 1. ELECTION OF DIRECTORS
COMPENSATION OF EXECUTIVE OFFICERS
PROPOSAL 2. RATIFICATION OF APPOINTMENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM
STOCK OWNERSHIP
AUDIT COMMITTEE CHARTER

Table of Contents

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS
To be held on May 15, 2008

NOTICE IS HEREBY GIVEN that the Annual Meeting of shareholders of Central Federal Corporation will be held Thursday, May 15, 2008 at the Fairlawn Country Club, located at 200 North Wheaton Road, Fairlawn, Ohio at 10:00 a.m., local time.

The purpose of the Meeting is to consider and vote upon the following matters:

1. The election of two Directors for terms of three years each, or until their successors are elected and qualified;

2. The ratification of the appointment of Crowe Chizek and Company LLC as independent registered public accounting firm for the Company for the year ending December 31, 2008; and

3. Such other matters as may properly come before the Meeting. The Board of Directors is not aware of any other business to come before the Meeting.

Record holders of the common stock of Central Federal Corporation at the close of business on April 4, 2008 are entitled to receive notice of the Meeting and to vote at the Meeting and any adjournment or postponement of the Meeting. The Meeting may be adjourned to permit the Company to solicit additional proxies in the event that there are insufficient votes for a quorum or to approve or ratify any of the aforementioned proposals at the time of the Meeting. A list of shareholders entitled to vote will be available at the Meeting and for the ten days preceding the Meeting at CFBank, 2923 Smith Road, Fairlawn, Ohio 44333.

By the Order of the Board of Directors

Eloise L. Mackus
Corporate Secretary

Fairlawn, Ohio
April 15, 2008

IMPORTANT: THE PROMPT RETURN OF PROXIES WILL SAVE THE COMPANY THE EXPENSE OF FURTHER REQUESTS FOR PROXIES IN ORDER TO ENSURE A QUORUM. A SELF-ADDRESSED ENVELOPE IS ENCLOSED FOR YOUR CONVENIENCE. NO POSTAGE IS REQUIRED IF MAILED IN THE UNITED STATES.

PROXY STATEMENT

INFORMATION CONCERNING SOLICITATION AND VOTING

The Company is soliciting your proxy. Your vote is very important. This proxy statement, proxy card and 2007 Annual Report are being first sent or given on or about April 15, 2008 to shareholders of Central Federal Corporation (the Company), whose principal executive offices are located at 2923 Smith Road, Fairlawn, Ohio 44333, in connection with the solicitation of proxies by the Board of Directors for the Annual Meeting of Shareholders (the Meeting) to be held at Fairlawn Country Club, 200 North Wheaton Road, Fairlawn, Ohio, at 10:00 a.m. local time on May 15, 2008. The Board of Directors encourages you to read this proxy statement thoroughly and to take this opportunity to vote on the matters to be decided at the Meeting.

VOTING PROCEDURES

WHO IS ENTITLED TO VOTE?

You are entitled to vote your common stock if the Company s records show that you held your shares as of the close of business on April 4, 2008. As of the close of business on that date, a total of 4,467,662 shares of common stock were outstanding and entitled to vote. Each share of common stock is entitled to one vote on each matter presented at the Meeting, except that, as provided in the Company s Certificate of Incorporation, record holders of common stock who beneficially own, either directly or indirectly, in excess of 10% of the outstanding shares of common stock (the 10% limit) are not entitled to any vote of their shares that are in excess of the 10% limit, and those shares are not treated as outstanding for voting purposes.

A person or entity is deemed to beneficially own shares owned by an affiliate of, as well as by persons acting in concert with, such person or entity. The Company s Certificate of Incorporation authorizes the Board of Directors (i) to make all determinations necessary to implement and apply the 10% limit, including determining whether persons or entities are acting in concert, and (ii) to demand that any person who is reasonably believed to beneficially own stock in excess of the 10% limit supply information to the Company to enable the Board of Directors to implement and apply the 10% limit.

As of the record date, April 4, 2008, there were three persons, each of whom was known to the Company to be the beneficial owner of more than 5% of the Company s outstanding common stock; however, no person was known to the Company to be subject to the 10% limit.

HOW DO I VOTE?

Other than by attending the Meeting and voting in person, shareholders are requested to vote by completing the enclosed proxy card and returning it signed and dated in the enclosed postage-paid envelope. If you hold your shares through a broker, bank or other nominee, (i.e. in street name), you will receive separate instructions from the nominee describing how to vote your shares.

WHAT ARE THE MATTERS TO BE PRESENTED?
Two proposals will be presented for your consideration at the Meeting:

1) Election of two directors; and

2) Ratification of appointment of the independent registered public accounting firm for 2008.

Table of Contents

WHAT ARE THE VOTING RECOMMENDATIONS OF THE BOARD OF DIRECTORS?
The Company s Board of Directors is sending you this proxy statement for the purpose of requesting that you allow your shares of Company common stock to be represented at the Meeting by persons named on the enclosed proxy card. All shares of Company common stock represented at the Meeting by properly executed proxies will be voted according to the instructions indicated on the proxy card. If you sign and return a proxy card without giving voting instructions, your shares will be voted as recommended by the Company s Board of Directors.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR EACH NOMINEE TO THE BOARD OF DIRECTORS AND FOR RATIFICATION OF CROWE CHIZEK AND COMPANY LLC AS INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM.

WHAT VOTE IS REQUIRED FOR EACH PROPOSAL?
In voting on the election of directors (Proposal 1), you may vote in favor of any or all of the nominees or withhold authority to vote for any or all of the nominees. Directors are elected by a plurality of the votes cast. This means that the nominees receiving the greatest number of votes will be elected. Votes that are withheld and broker non-votes (as defined below under WHAT CONSTITUTES A QUORUM FOR THE MEETING?) will have no effect on the outcome of the election.

In voting on the ratification of Crowe Chizek and Company LLC as independent registered public accounting firm for the Company (Proposal 2) and all other matters that may properly come before the Meeting, you may vote in favor of the proposal, vote against the proposal or abstain from voting. Under the Company s Bylaws and Delaware law, an affirmative vote of the holders of a majority of the votes cast at the Meeting on Proposal 2 is required to ratify the appointment of Crowe Chizek and Company LLC as independent registered public accounting firm of the Company. Shares underlying broker non-votes or in excess of the 10% limit will not be counted as present and entitled to vote or as votes cast, and, accordingly, such shares will have no effect on the outcome. Abstentions are treated as present for purposes of constituting a quorum but are not counted as votes for or against proposals, which are decided by a majority of votes cast.

If there are not sufficient votes for a quorum or to approve or ratify any proposal at the time of the Meeting, the Meeting may be adjourned in order to permit the further solicitation of proxies.

The Company is not aware of any other matters to be presented at the Meeting. If any matters not described in this proxy statement are properly presented at the Meeting, the persons named in the proxy card will use their best judgment to determine how to vote your shares. This includes a motion to adjourn or postpone the Meeting in order to solicit additional proxies. If the Meeting is postponed or adjourned, your Company common stock may be voted by the persons named on the proxy card on the new Meeting date as well, unless you have revoked your proxy.

WHAT CONSTITUTES A QUORUM FOR THE MEETING?
The Meeting will be held if a quorum, consisting of a majority of outstanding shares of common stock entitled to vote (after subtracting any shares in excess of the 10% limit) is represented at the Meeting. If you return valid proxy instructions or attend the Meeting in person, your shares will be counted for purposes of determining whether there is a quorum, even if you abstain from voting. Broker non-votes also will be counted for purposes of determining a quorum. A broker non-vote occurs when a broker, bank, or other nominee holding shares for a beneficial owner does not vote on a particular proposal because the nominee does not have discretionary voting power with respect to the item and has not received voting instructions from the beneficial owner.

CAN I REVOKE OR CHANGE MY VOTE AFTER I SUBMIT MY PROXY?
You may revoke your proxy at any time before the vote is taken at the Meeting. To revoke your proxy, you must either advise the Corporate Secretary of the Company in writing before your common stock has been voted at the

Meeting, deliver to the Company another proxy that bears a later date, or attend the Meeting and vote your shares in person. Attendance at the Meeting will not in itself revoke your proxy. If your Company common stock is held in street name and you wish to change your voting instructions after you have returned your voting instruction form to your broker or bank, you must contact your broker or bank.

Table of Contents

WHO WILL COUNT THE VOTE?

The Company s transfer agent, Registrar and Transfer Company, will tally the vote, which will be certified by an independent Inspector of Election. The Board of Directors has designated Stanley L. Apple of Apple Growth Partners to act as the Inspector of Election. Mr. Apple is not otherwise employed by, or a director of, the Company or any of its affiliates. After the final adjournment of the Meeting, the proxies will be returned to the Company.

WHO CAN ATTEND THE MEETING?

If you are a shareholder of record as of the close of business on April 4, 2008, you may attend the Meeting. However, if you are a beneficial owner of Company common stock held by a broker, bank or other nominee, you will need proof of ownership to be admitted to the Meeting. A recent brokerage statement or letter from a bank or broker would serve as proof of ownership. If you want to vote your shares of Company common stock held in street name in person at the Meeting, you must obtain a written proxy in your name from the broker, bank, or other nominee who holds your shares.

CORPORATE GOVERNANCE

GENERAL

The Company continues to review its corporate governance policies and practices. This includes comparing its current policies and practices to policies and practices suggested by various groups and authorities active in corporate governance and practices of other public companies. Based upon this review, the Company expects to adopt any changes that the Board of Directors believes are the best corporate governance policies and practices for the Company. The Company will adopt changes, as appropriate, to maintain compliance with the Sarbanes-Oxley Act of 2002 and any rule changes made by the Securities and Exchange Commission and the Nasdaq® Stock Market, Inc.

CODE OF ETHICS AND BUSINESS CONDUCT

Since the Company s inception in 1998, it has had a Code of Ethics and Business Conduct (Code of Conduct). The Company requires all directors, officers and other employees of the Company and its wholly owned subsidiary, CFBank, to adhere to the Code of Conduct in addressing the legal and ethical issues encountered in conducting their work. The Code of Conduct requires that the Company s and CFBank s employees avoid conflicts of interest, comply with all laws and other legal requirements, conduct business in an honest and ethical manner and otherwise act with integrity and in the Company s and CFBank s best interest. All of the Company s and CFBank s employees are required to certify that they have reviewed and understand the Code of Conduct. In addition, all officers and senior level executives are required to certify as to any actual or potential conflicts of interest involving them and the Company or CFBank. The Company and CFBank also provide training for employees on the Code of Conduct and their legal obligations. The Company s Code of Conduct is applicable to all employees of the Company and CFBank, including its principal executive officer, principal financial officer and controller, and meets the requirements of the Sarbanes-Oxley Act of 2002 with respect to the obligations of such persons.

Employees are required to report any conduct that they believe in good faith to be an actual or apparent violation of the Code of Conduct. The Code of Conduct includes procedures to receive, retain and treat complaints received regarding accounting, internal accounting controls or auditing matters and to allow for the confidential and anonymous submission by employees of concerns regarding questionable accounting or auditing matters.

The Company s Code of Ethics and Business Conduct is available on the Company s website at www.CFBankonline.com under the caption CF News and Links Investor Relations Corporate Governance.

PROPOSAL 1. ELECTION OF DIRECTORS

The number of directors is fixed at seven. Two directors, Mr. Downing and Mr. Grace, have been nominated to be elected to hold office until the Annual Meeting in 2011. Notwithstanding the foregoing, each director will serve until his successor is duly qualified and elected. The nominees are listed below. Should any nominee decline or be unable to accept such nomination or be unable to serve, an event which management does not now expect, the Board of Directors reserves the right in its discretion to substitute another person as a nominee or to reduce the number of nominees. In this event, the proxy holders may vote your shares in their discretion for any substitute nominee proposed by the Board of Directors unless you indicate otherwise.

All nominees currently are directors of the Company. There are no family relationships among any of the directors and executive officers. No directors hold directorships in other reporting companies, except Mr. Vernon, as described below. No person being nominated as a director is being proposed for election pursuant to any agreement or understanding between any such person and the Company. The following is information regarding each nominee and each director continuing in office. Unless otherwise stated, each individual has held his current occupation for at least five years.

THE BOARD OF DIRECTORS RECOMMENDS THAT YOU VOTE FOR THE ELECTION OF THE NOMINEES NAMED IN THIS PROXY STATEMENT.

NOMINEES

William R. Downing has been President of R. H. Downing, Inc., an automotive supply, sales and marketing agency in Akron, Ohio, since June 1973. He is also Chairman and Chief Executive Officer of JohnDow Industries, Inc., a manufacturer and distributor of lubrication and fluid handling equipment which he founded in 1988, and Chairman of Dowco, LLC, a manufacturer and processor of tire cord for use in the power transmission belt industry which he acquired in 2006. Age 62. Director since 2003.

Gerry W. Grace, retired, was President of Grace Services, Inc., a weed and pest control company located in Canfield, Ohio, from April 1980 through 2005. He was the Chairman of CFBank, then known as Central Federal Savings & Loan Association of Wellsville, from 1994 to early 2003, and the Chairman of Central Federal Corporation, then known as Grand Central Financial Corp., from 1998 to early 2003. Mr. Grace also served as a Trustee of Ellsworth Township, Ohio from 1976 through 2005. Age 68. Director since 1986.

CONTINUING DIRECTORS

Jeffrey W. Aldrich, retired, was President and Chief Executive Officer of Sterling China Co., a dishware manufacturing company in Wellsville, Ohio, from November 1970 through 2005. Age 65. Director since 1979. Current term as director expires on the date of the Annual Meeting in 2009.

Mark S. Allio has been the Chairman of the Company and CFBank since January 1, 2006 and President and Chief Executive Officer of the Company and Chief Executive Officer of CFBank since February 1, 2005. He was the Vice Chairman of the Company and CFBank from February 1, 2005 through December 31, 2005. Mr. Allio was President and Chief Executive Officer of Rock Bank, an affiliate of Quicken Loans, Inc. in Livonia, Michigan, from April 2003 to December 2004, President of Third Federal Savings, MHC in Cleveland, Ohio from January 2000 to December 2002, Chief Financial Officer of Third Federal from 1988 through 1999, and has more than 30 years of banking and banking-related experience. Age 53. Director since 2003. Current term as director expires on the date of the Annual

Meeting in 2009.

Thomas P. Ash has been Director of Governmental Relations at the Buckeye Association of School Administrators since August 2005. Prior to that time, Mr. Ash was Superintendent of Schools, Mid-Ohio Educational Service Center in Mansfield, Ohio from January 2000 through July 2005. Mr. Ash was the Superintendent of Schools, East Liverpool City School District in East Liverpool, Ohio from August 1984 to December 1999. As Superintendent at Mid-Ohio Educational Service Center and East Liverpool City School District, his experience included financial

reporting and analysis, supervising and directing financial staff members, implementing and complying with GAAP reporting requirements and developing internal controls. Age 58. Director since 1985. Current term as director expires on the date of the Annual Meeting in 2010.

David C. Vernon has been a director, President and Chief Executive Officer of National Bancshares Corporation and First National Bank, Orville, Ohio since November 2006. Mr. Vernon continues as Chairman Emeritus of the Company and CFBank, positions he has held since February 29, 2008. He also served as Vice Chairman of the Company and CFBank, from January 1, 2006 to February 28, 2008 and Chairman of the Company and CFBank from January 2003 to December 2005. Mr. Vernon was Chief Executive Officer of the Company and CFBank from January 2003 to January 2005 and President of the Company from March 2003 through January 2005. He was Chairman, President and Chief Executive Officer of Founders Capital Corporation in Akron, Ohio from September 2002 to February 2003; a Strategic Planning Consultant to Westfield Bank in Westfield, Ohio from May 2000 to July 2002; a Consultant to Champaign National Bank in Urbana, Ohio from July 1999 to April 2002; and a Consultant to First Place Bank in Warren, Ohio from April 1999 to February 2001. While serving as a Consultant to Champaign National Bank, Mr. Vernon also served as a director and member of the Audit and Compensation Committees of that bank s parent company, Futura Banc Corp. In February 1999, Mr. Vernon retired as Chairman, President and Chief Executive Officer of Summit Bank, a community bank he founded in January 1991. Age 67. Director since 2003. Current term as director expires on the date of the Annual Meeting in 2010.

Jerry F. Whitmer is Of Counsel to Brouse McDowell, LPA, a law firm in Akron, Ohio, where he was a shareholder from 1971 through 2005. Mr. Whitmer served as Managing Partner of the firm from 1997 through 2005. Age 72. Director since 2003. Current term as director expires on the date of the Annual Meeting in 2010.

INDEPENDENCE OF DIRECTORS

The Board of Directors has adopted Director Independence Standards to assist in determining the independence of each director, or nominee for director. In order for a director or nominee to be considered independent, the Board of Directors must affirmatively determine that the director or nominee has no material relationship with the Company. In each case, the Board of Directors broadly considers all relevant facts and circumstances, including the director s or nominee s commercial, industrial, banking, consulting, legal, accounting, charitable and familial relationships and such other criteria as the Board of Directors may determine from time to time. These Director Independence Standards are available on the Company s website at www.CFBankonline.com under the caption CF News and Links Investor Relations Corporate Governance.

The Board of Directors has determined that Messrs. Aldrich, Ash, Downing, Grace and Whitmer meet these standards and are independent and, in addition, satisfy the independence requirements of the Nasdaq® Stock Market, Inc.

Absent unusual circumstances, each director is expected to attend all annual and special meetings of shareholders. All the directors who were board members at the time of the 2007 Annual Meeting of Shareholders attended that meeting.

MEETINGS AND COMMITTEES OF THE BOARD OF DIRECTORS

The Board of Directors of the Company is responsible for establishing broad corporate policies and for the overall performance of the Company. Directors discharge their responsibilities at Board meetings and committee meetings. The members of the Board of Directors of the Company also serve as members of the Board of Directors of CFBank. The Board of Directors of the Company holds regular meetings at least three times annually. The Board of Directors of CFBank meets on a monthly basis. Both Boards may have additional meetings as needed. During the year ended December 31, 2007, the Board of Directors of the Company held six meetings, three of which were special meetings, the independent directors of the Company held two meetings, and the Board of Directors of CFBank held 12 meetings. No director attended fewer than 75% of the aggregate number of Board meetings and meetings of the committees on which he served. The Board of Directors of the Company maintains committees, the nature and

composition of which are described below:

AUDIT COMMITTEE. The Audit Committee consists of Messrs. Ash, Grace and Whitmer. Each member of the Committee is independent as defined in the corporate governance listing standards of the Nasdaq® Stock Market,

Inc. and the Company s Director Independence Standards. Mr. Ash is the Audit Committee financial expert and is independent of management. The Audit Committee operates under a written charter adopted by the Board of Directors. The Audit Committee Charter is attached to this proxy statement as Appendix A and is available on the Company s website at www.CFBankonline.com under the caption CF News and Links Investor Relations Corporate Governance. This committee is primarily responsible for overseeing the engagement, independence and services of our independent registered public accounting firm and is also responsible for the review of audit reports and management s actions regarding the implementation of audit findings and review of compliance with all relevant laws and regulations. The Audit Committee met eight times during 2007.

AUDIT COMMITTEE REPORT

The Audit Committee operates under a written charter adopted by the Board of Directors. The Board of Directors has determined that each Audit Committee member is independent in accordance with the listing standards of the Nasdaq® Stock Market, Inc.

The Company s management is responsible for the Company s internal controls and financial reporting process. The independent registered public accounting firm is responsible for performing an independent audit of the Company s consolidated financial statements and issuing an opinion on the conformity of those financial statements with U.S. generally accepted accounting principles. The Audit Committee oversees the Company s internal controls and financial reporting process on behalf of the Board of Directors.

In this context, the Audit Committee has met and held discussions with management and representatives of the independent registered public accounting firm. Management represented to the Audit Committee that the Company s consolidated financial statements were prepared in accordance with U.S. generally accepted accounting principles, and the Audit Committee has reviewed and discussed the consolidated financial statements with management and the independent registered public accounting firm. The Audit Committee discussed with the independent registered public accounting firm matters required to be discussed by Statement on Auditing Standards No. 61 (Communication With Audit Committees), including the quality, not just the acceptability, of the accounting principles, the reasonableness of significant judgments, and the clarity of the disclosures in the financial statements.

In addition, the Audit Committee has received the written disclosures and the letter from the independent registered public accounting firm required by the Independence Standards Board Standard No. 1 (Independence Discussions with Audit Committees) and has discussed with the independent registered public accounting firm the accountants independence from the Company and its management. In concluding that the accountants are independent, the Audit Committee considered, among other factors, whether the non-audit services provided by the independent registered public accounting firm were compatible with its independence.

The Audit Committee discussed with representatives of the Company s independent registered public accounting firm the overall scope of plans for their audit. The Audit Committee meets with such representatives, with and without management present, to discuss the results of their examination, their evaluation of the Company s internal controls, and the overall quality of the Company s financial reporting.

In performing all of these functions, the Audit Committee acts only in an oversight capacity. In its oversight role, the Audit Committee relies on the work and assurances of the Company s management, which has a primary responsibility for financial statements and reports, and of the independent registered public accounting firm which, in its report, expresses an opinion on the conformity of the Company s financial statements to U.S. generally accepted accounting principles. The Audit Committee s oversight does not provide it with an independent basis to determine that management has maintained appropriate accounting and financial procedures designed to assure compliance with accounting standards and applicable laws and regulations. Furthermore, the Audit Committee s considerations and discussions with management and the independent registered public accounting firm do not assure that the Company s

financial statements are presented in accordance with U.S. generally accepted accounting principles, that the audit of the Company s financial statements has been carried out in accordance with generally accepted auditing standards or that the Company s independent registered public accounting firm is, in fact, independent.

In reliance on the review and discussions referred to above, the Audit Committee recommended to the Board of Directors, and the Board has approved, that the audited consolidated financial statements be included in the

Company s Annual Report on Form 10-K for the year ended December 31, 2007 for filing with the Securities and Exchange Commission. The Audit Committee and the Board of Directors also have approved the selection of the Company s independent registered public accounting firm.

Thomas P. Ash, Chairman, Gerry W. Grace and Jerry F. Whitmer

COMPENSATION AND MANAGEMENT DEVELOPMENT COMMITTEE. The Compensation and Management Development Committee consists of Mssrs. Ash, Downing and Whitmer. Each member of the Committee is independent as defined in the corporate governance listing standards of the Nasdaq® Stock Market, Inc. and the Company s Director Independence Standards. The committee is responsible for (i) establishing compensation and benefits for the Chief Executive Officer, (ii) reviewing, when necessary, the incentive compensation programs of the Company and CFBank, and (iii) reviewing matters regarding compensation and fringe benefits for other officers and employees of the Company and CFBank. The Compensation and Management Development Committee of the Company met three times in 2007. The Compensation and Management Development Committee has a charter, which is available on the Company s website at www.CFBankonline.com under the caption CF News and Links Investor Relations Corporate Governance.

COMPENSATION AND MANAGEMENT DEVELOPMENT COMMITTEE REPORT
This report is made under the Committee s charter and the rules and regulations of the Securities and Exchange Commission.

The Compensation and Management Development Committee operates under a written charter adopted by the Board of Directors. The Board of Directors has determined that each member or the Compensation and Management Development Committee is independent in accordance with the listing standards of the Nasdaq® Stock Market, Inc. and the Company s Director Independence Standards.

The Committee has overall responsibility for approving and evaluating the director and officer compensation plans, policies and programs of the Company and CFBank.

Under its charter, the Compensation and Management Development Committee may delegate all or a portion of its duties and responsibilities to a subcommittee, which the Committee has chosen not to do. The Committee must meet at least three times annually, which is the number of times the Committee met during 2007. Mr. Allio periodically makes recommendations to the Committee for the Company s and CFBank s directors and executive officers compensation, including stock-based incentive awards. The Compensation and Management Development Committee, under its charter, is vested with the authority to retain compensation consultants, for which the Company would pay a fee. The Committee did not retain compensation consultants in 2007.

William R. Downing, Chairman, Thomas P. Ash and Jerry F. Whitmer

CORPORATE GOVERNANCE AND NOMINATING COMMITTEE. The Corporate Governance and Nominating Committee actively seeks individuals to become Board members who have the highest personal and professional character and integrity, who possess appropriate characteristics, skills, experience and time to make a significant contribution to the Board of Directors, the Company and its shareholders, who have demonstrated exceptional ability and judgment, and who will be most effective, in the context of the whole Board of Directors and other nominees to the Board of Directors, in perpetuating the success of the Company and in representing shareholders interests. The Committee may employ professional search firms, for which the Company would pay a fee to assist it in identifying potential members of the Board of Directors with the desired skills and disciplines.

The Committee will consider shareholder nominations for director on the same basis and in the same manner as it considers nominations for director from any other source. Any shareholder may submit a nomination in writing to the Chair, Corporate Governance and Nominating Committee, c/o Corporate Secretary, Central Federal Corporation, 2923 Smith Road, Fairlawn, Ohio 44333. The nominations must be accompanied by all the information relating to the nominee required by the Company s Bylaws and the Securities and Exchange Commission s proxy rules. The Company s Bylaws provide that, to be considered timely, any shareholder nomination for director generally must be received in writing by the Corporate Secretary at least 90 days before the date fixed for the next Annual Meeting of shareholders; provided, however, under certain unusual circumstances a nomination received as late as the 10th day after the mailing of a notice of an Annual Meeting of Shareholders may be considered. A copy of

the full text of the Bylaw provisions relating to shareholder nominations may be obtained by writing to the Corporate Secretary at 2923 Smith Road, Fairlawn, Ohio 44333.

The Committee considers candidates for director nominees based on factors it deems appropriate. These factors may include judgment, character, background, skill, diversity, experience with businesses and other organizations of comparable size, the interplay of the candidate s experience with the experience of other Board members and the extent to which the candidate would be a desirable addition to the Board and any committees of the Board. In addition, because the Company is primarily a community financial services company, board candidates must be highly regarded members of the community in which the Company provides financial services.

The Corporate Governance and Nominating Committee met two times in 2007 and is currently composed of three directors: Messrs. Aldrich, Grace and Whitmer. Mr. Whitmer is Chairman of the Committee. Each member of the Committee is independent as defined in the corporate governance listing standards of the Nasdaq® Stock Market, Inc. and the Company s Director Independence Standards.

The Corporate Governance and Nominating Committee charter is available on the Company s website at www.CFBankonline.com under the caption CF News and Links Investor Relations Corporate Governance.

COMMITTEE CHARTERS AND OTHER CORPORATE GOVERNANCE DOCUMENTS. The Audit Committee Charter, Compensation and Management Development Committee Charter, Corporate Governance and Nominating Committee Charter, Corporate Governance Guidelines, Director Independence Standards and Code of Ethics and Business Conduct are available on the Company s website at www.CFBankonline.com under the caption CF News and Links Investor Relations Corporate Governance. You also may receive copies without charge by writing to: Corporate Secretary, Central Federal Corporation, 2923 Smith Road, Fairlawn, Ohio 44333.

COMMUNICATIONS WITH DIRECTORS

The Board of Directors also has adopted a process by which shareholders and other interested parties may communicate with the Board, any individual director, any committee chair or the non-management directors as a group by e-mail or regular mail. Communications by e-mail should be sent to EllyMackus@CFBankmail.com. Communications by regular mail should be sent to the attention of the Board of Directors; any individual director by name; Chair, Audit Committee; Chair, Compensation and Management Development Committee; Chair, Corporate Governance and Nominating Committee or to the Non-Management Directors, c/o Corporate Secretary, Central Federal Corporation, 2923 Smith Road, Fairlawn, Ohio 44333. All communications will be reviewed by management to determine whether the communication requires immediate action. Management will pass on all communications received, or a summary of such communications, to the appropriate director or directors.

DIRECTORS COMPENSATION

DIRECTORS FEES. Each director (including Mr. Allio) is paid an annual retainer in the amount of $15,000, which includes a retainer of $3,000 for service as a director of the Company and a retainer of $12,000 for service as a director of CFBank. The Chairman of the Board receives an additional $9,500 per year and, beginning in 2008, the Audit Committee Chairman, who is also the Committee s financial expert, will receive an additional $3,000 per year to reflect an increase in demands on him as a result of the Sarbanes-Oxley Act of 2002.

1999 STOCK-BASED INCENTIVE PLAN AND THIRD AMENDED AND RESTATED 2003 EQUITY COMPENSATION PLAN. The Company maintains the 1999 Stock-Based Incentive Plan and the Third Amended and Restated 2003 Equity Compensation Plan for the benefit of employees and outside directors of the Company and CFBank.

Table of Contents

DIRECTOR COMPENSATION TABLE. The table below summarizes compensation paid to each director who is not a named executive officer during the year ended December 31, 2007. Director compensation for Mr. Allio and Mr. Vernon is included in the Summary Compensation Table.

	Director Compensation				
Name	Fees Earned or Paid in Cash ($)	Stock Awards ($) (1)	Option Awards ($) (2)	All Other Compensation ($) (3)	Total ($)
Jeffrey W. Aldrich	$ 15,000	$ 5,435	$	$ 3,667	$ 24,102
Thomas P. Ash	15,000	5,435		1,036	21,472
William R. Downing	15,000	5,435			20,435
Gerry W. Grace	15,000	5,435		6,313	26,748
Jerry F. Whitmer	15,000	5,435			20,435

(1) The amounts included in the Stock Awards column represent the compensation cost we recognized in 2007 related to non-option stock awards, as described in Statement of Financial Accounting Standards No. 123R. For a discussion of the assumptions we used to calculate the value of stock awards reported in this column, see Note 15 to our consolidated financial statements on pages 41-42 of our annual report on Form 10-K for the year ended December 31, 2007. As of December 31, 2007, each director had a total of 1,100 shares of restricted stock outstanding.

(2) We did not grant any option awards to directors in 2007. See Note 15 to our consolidated financial statements included in our annual report on Form 10-K for a discussion of expense related to awards in prior years. As of December 31, 2007, Messrs. Aldrich, Ash and Grace had a total of 11,694 options outstanding. Messrs. Downing and Whitmer had a total of 2,000 options outstanding.

(3) The amounts shown in the All Other Compensation column represent costs associated with life insurance benefits for Messrs. Aldrich, Ash and Grace.

COMPENSATION OF EXECUTIVE OFFICERS

SUMMARY COMPENSATION TABLE. The following table summarizes compensation for our Chief Executive Officer and our two most highly compensated executive officers other than the CEO for the years ended December 31, 2007 and 2006.

Summary Compensation Table for 2007

Name and Principal Position	Year	Salary ($)	Bonus ($)	Stock Awards ($) (1)	Option Awards ($) (2)	Nonqualified Deferred Compensation Earnings ($) (3)	All Other Compensation ($) (4)	Total ($)
Mark S. Allio	2007	$ 175,000	$	$ 30,921	$ 3,347	$	$ 28,000	$ 237,268
Chairman, President and Chief Executive Officer	2006	175,000	15,000	19,814			24,500	234,314
David C. Vernon	2007	120,000		23,876		91,964	30,600	266,440
Chairman Emeritus	2006	120,000		42,518		72,980	28,200	263,698
Raymond E. Heh	2007	120,000	10,000	21,868	669			152,537
President and Chief Operating Officer, CFBank	2006	119,583	10,000	23,824				153,407

(1) The amounts included in the Stock Awards column represent the compensation cost we recognized related to non-option stock awards, as described in Statement of Financial Accounting Standards No. 123R. For a discussion of the assumptions we used to calculate the value of the stock awards reported in this column, see Note 15 to our consolidated financial statements on pages 41-42 of our annual report on Form 10-K for the year ended December 31, 2007.

(2) The amounts included in the Option Awards column represent the compensation cost we recognized related to stock option grants, as described in Statement of Financial Accounting Standards No. 123R. For a discussion of the assumptions we used to calculate the value of option awards reported in this column, see Note 15 to our consolidated financial statements included in our annual report on Form 10-K for the year ended December 31, 2007. We did not grant any option awards in 2006. See Note 15 to our consolidated financial statements in our annual report on Form 10-K for a discussion of expense related to awards in prior years.

(3) The amounts shown in this column are the changes in 2006 and 2007 in the actuarial present value of the accumulated benefits under Mr. Vernon s Salary Continuation Agreement.

(4) The amounts shown in the All Other Compensation column are attributable to employer 401(k) plan matching contributions, director fees and perquisites as follows: For Mr. Allio, $3,500 employer 401(k) plan match in

2007 and $24,500 director fees, including a $9,500 annual fee he received as Chairman of the Board, in 2006 and 2007. For Mr. Vernon, $2,400 employer 401(k) plan match in 2007; $15,000 director fees, $7,200 country club dues, and $6,000 auto allowance in 2006 and 2007.

Table of Contents

OUTSTANDING EQUITY AWARDS AT FISCAL YEAR-END. The following table shows information regarding outstanding equity awards we have made to our named executive officers which are outstanding as of December 31, 2007.

Outstanding Equity Awards at Fiscal Year-End

	Option Awards				Stock Awards	
Name	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable (1)	Option Exercise Price ($)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#) (2)	Market Value of Shares or Units of Stock That Have Not Vested ($) (3)
Mark S. Allio	24,474		10.42	5/19/15	8,000	30,880
		5,000	7.35	2/15/17		
David C. Vernon	11,390		10.05	1/16/13	3,575	13,800
	28,000		11.50	4/17/13		
	15,000		12.60	4/15/14		
	7,000		10.42	5/19/15		
Raymond E. Heh	12,000		12.57	6/9/13	4,800	18,528
	3,632		13.76	3/18/14		
	7,500		12.60	4/15/14		
	7,000		10.42	5/19/15		
		1,000	7.35	2/15/17		

(1) The unexercisable Option Awards as of December 31, 2007 have a vesting date or will vest as follows:

Date	**Mr. Allio**	**Mr. Heh**
1/31/08	1,667	333
1/31/09	1,666	333
1/31/10	1,667	334
	5,000	1,000

(2) The Stock Awards that have not vested as of December 31, 2007 have a vesting date or will vest as follows:

Date	Mr. Allio	Mr. Vernon	Mr. Heh
1/16/08		775	
1/31/08	1,667	1,000	1,000
5/31/08	1,000	600	600
1/31/09	1,667		1,000
5/31/09	1,000	600	600
1/31/10	1,666		1,000
5/31/10	1,000	600	600
	8,000	3,575	4,800

(3) Based on the $3.86 closing price of our common stock as of December 31, 2007.

EMPLOYMENT AGREEMENTS. CFBank and the Company have maintained employment agreements with David C. Vernon, who was President and Chief Executive Officer of the Company and Chief Executive Officer of CFBank until January 31, 2005.

The Employment Agreements were amended in December 2004 in connection with a management succession plan whereby Mark S. Allio was appointed President and Chief Executive Officer of the Company and Chief Executive Officer of CFBank effective February 1, 2005. The terms of the amended Employment Agreements provided that effective February 1, 2005 and so long as Mr. Vernon continued to serve, if elected, as a director, Mr. Vernon would be Chairman of the Board of Directors through December 31, 2005 and, thereafter, Vice Chairman of the Board of Directors until his expected retirement date in February 2008. On February 28, 2008, Mr. Vernon retired and was named Chairman Emeritus. He will remain a director, if elected and, if not elected, he will continue to serve as a consultant or employee and be available to perform special project services for and on behalf of the Company and CFBank at a compensation level commensurate with his duties and responsibilities, but in any event not less than $100 per month, until April 17, 2014.

All reasonable costs and legal fees paid or incurred by Mr. Vernon pursuant to any dispute or question of interpretation relating to the Employment Agreements are to be paid by CFBank or the Company, respectively, if Mr. Vernon is successful on the merits pursuant to a legal judgment, arbitration or settlement. The Employment Agreements also provide that CFBank and the Company indemnify Mr. Vernon to the fullest extent allowable under federal, Ohio and Delaware law, respectively. Payments to Mr. Vernon under CFBank s Employment Agreement are guaranteed by the Company in the event that payments or benefits are not paid by CFBank.

SALARY CONTINUATION AGREEMENT. In 2004, CFBank initiated a nonqualified Salary Continuation Agreement for Mr. Vernon. Under the plan, CFBank pays him, or his beneficiary, a retirement benefit of $25,000 annually for 20 years beginning March 2008.

ADDITIONAL INFORMATION ABOUT DIRECTORS AND EXECUTIVE OFFICERS

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE. Section 16(a) of the Securities Exchange Act of 1934 requires the Company s executive officers and directors and persons who own more than 10% of any registered class of the Company s equity securities to file reports of ownership and changes in ownership with the Securities and Exchange Commission. Executive officers, directors and greater than 10% shareholders are required by regulations of the Securities and Exchange Commission to furnish the Company copies of all Section 16(a) reports they file.

Based solely on a review of the copies of all such reports of ownership furnished to the Company, or written representations that no forms were necessary, we believe there were no known failures to file a required Form. For the year ended December 31, 2007, two reports were filed late for Mr. Allio, which resulted in the transactions not being reported on a timely basis. The late transactions were subsequently reported on Form 4s.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS. Federal regulations related to insured financial institutions and CFBank policy require that any and all loans or extensions of credit made by CFBank to related persons of the Company or CFBank, including executive officers, directors or their immediate family members (i) be made in the ordinary course of business on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with persons not related to CFBank, (ii) do not involve more than the normal risk of collectability and (iii) do not present any other unfavorable features. All outstanding loans or extensions of credit made by CFBank to such related persons comply with these regulations and policies. In addition, loans made to a director or executive officer in an amount that, when aggregated with the amount of all other loans to such person and his or her related interests, exceed the greater of $25,000 or 5% of CFBank s capital and surplus (up to

a maximum of $500,000) must be approved in advance by a majority of the disinterested members of the Board of Directors. Total loans outstanding to such related persons totaled $2.7 million at December 31, 2007.

Table of Contents

PROPOSAL 2. RATIFICATION OF APPOINTMENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Audit Committee, with the approval of the Board of Directors, has appointed Crowe Chizek and Company LLC to be its independent registered public accounting firm for 2008, subject to ratification by shareholders. A representative of Crowe Chizek and Company LLC is expected to be present at the Meeting to respond to appropriate questions from shareholders and will have the opportunity to make a statement should he or she desire to do so.

If shareholders do not ratify the appointment of Crowe Chizek and Company LLC as the Company s independent registered public accounting firm for 2008, the Audit Committee may replace them with another independent registered public accounting firm for the balance of the year or may continue to use Crowe Chizek and Company LLC if the Audit Committee deems it to be in the best interest of the Company under the circumstances.

THE BOARD OF DIRECTORS RECOMMENDS THAT YOU VOTE FOR RATIFICATION OF THE APPOINTMENT OF CROWE CHIZEK AND COMPANY LLC AS THE COMPANY S INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FOR 2008.

The following table sets forth the fees billed to the Company for 2007 and 2006 by Crowe Chizek and Company LLC:

	2007	2006
Audit Fees	$ 56,000	$ 52,000
Audit-Related Fees	31,950	47,950
Tax Fees		
All Other Fees		
Total	$ 87,950	$ 99,950

Audit-related fees related to Crowe Chizek and Company LLC s review of the Company s filings with the Securities and Exchange Commission during 2007 and 2006.

The Company s Audit Committee must pre-approve all engagements of the independent registered public accounting firm by the Company and its subsidiaries, including CFBank, as required by the Audit Committee s charter and the rules of the Securities and Exchange Commission. Prior to the beginning of each fiscal year, the Audit Committee approves an annual estimate of fees for engagements, taking into account whether the services are permissible under applicable law and the possible impact of each non-audit service on the independent registered public accounting firm s independence from management. In addition, the Audit Committee evaluates known potential engagements of the independent registered public accounting firm, including the scope of the proposed work to be performed and the proposed fees, and approves or rejects each service. Management may present additional services for approval at subsequent committee meetings. The Audit Committee has delegated to the Audit Committee Chairman the authority to evaluate and approve engagements on behalf of the Audit Committee in the event a need arises for pre-approval between Committee meetings and in the event the engagement for services was within the annual estimate but not specifically approved. If the Chairman so approves any such engagements, he reports that approval to the full

Committee at the next Committee meeting.

Since the effective date of the Securities and Exchange Commission s rules that strengthen independent registered public accounting firm independence, all audit, audit-related, tax and other services provided by Crowe Chizek and Company LLC have been pre-approved in accordance with the Audit Committee s policies and procedures.

Table of Contents

STOCK OWNERSHIP

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS

The following table provides information as of March 20, 2008 about the persons known by the Company to be beneficial owners of more than 5% of the Company s outstanding common stock. A person may be considered to beneficially own any shares of common stock over which he or she has, directly or indirectly, sole or shared voting or investment power.

Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percent of Common Stock Outstanding
First Manhattan Co. (1) 437 Madison Avenue New York, NY 10022	371,808	8.4%
Wellington Management Co., LLP (2) 75 State Street Boston, MA 02109	333,088	7.5%
Uni Capital LP (3) 7111 Valley Green Road Fort Washington, PA 19304	260,000	5.9%

(1) Based on information contained in a statement on Schedule 13G/A dated December 31, 2007 and filed February 11, 2008, First Manhattan Co. has sole voting power over 349,026 shares of the outstanding common stock of the Company, shared voting power over 22,782 shares of the outstanding common stock of the Company, sole investment power over 349,026 shares of the outstanding common stock of the Company, and shared investment power over 22,782 shares of the outstanding common stock of the Company.

(2) Based on information contained in a statement on Schedule 13G/A dated December 31, 2007 and filed February 14, 2008, Wellington Management Co., LLP has shared voting power over 251,388 shares of the outstanding common stock of the Company and shared investment power over 333,088 shares of the outstanding common stock of the Company.

(3) Based on information contained in a statement on Schedule 13G dated January 28, 2008 and filed February 4, 2008, Uni Capital LP has sole voting power over 260,000 shares of the outstanding common stock of the Company and sole investment power over 260,000 shares of the outstanding common stock of the Company.

Table of Contents

SECURITY OWNERSHIP OF DIRECTORS AND EXECUTIVE OFFICERS

The following table sets forth information as of March 20, 2008 with respect to the number of shares of Company common stock considered to be owned by each director or nominee for director of the Company, by each executive officer named in the Summary Compensation Table and by all directors and executive officers of the Company as a group. A person may be considered to own any shares of common stock over which he or she has, directly or indirectly, sole or shared voting or investment power.

	Amount and Nature of Beneficial Ownership	
	Shares	Percent
Mark S. Allio, Chairman of the Board, President and Chief Executive Officer (1)	156,023	3.5%
David C. Vernon, Chairman Emeritus (2)	119,881	2.6%
Jeffrey W. Aldrich, Director (3)	37,290	0.8%
Thomas P. Ash, Director (4)	37,172	0.8%
William R. Downing, Director (5)	36,192	0.8%
Gerry W. Grace, Director (4)	53,072	1.2%
Jerry F. Whitmer, Director (6)	10,000	0.2%
Raymond E. Heh, President and Chief Operating Officer, CFBank (7)	47,465	1.1%
All directors and executive officers as a group (11 persons) (8)	666,099	14.2%

(1) Includes 18,833 shares awarded to Mr. Allio pursuant to the Company s equity compensation plans which have not yet vested, but as to which he may provide voting recommendations. Includes 26,141 shares which may be acquired by exercising stock options within 60 days. Also includes 1,300 shares owned by Michele Allio, Mr. Allio s spouse.

(2) Includes 1,800 shares awarded to Mr. Vernon pursuant to the Company s equity compensation plans which have not yet vested, but as to which he may provide voting recommendations. Includes 61,390 shares which may be acquired by exercising stock options within 60 days. Also includes 412 shares owned by M. Catherine Vernon, Mr. Vernon s spouse.

(3) Includes 600 shares awarded to Mr. Aldrich pursuant to the Company s equity compensation plans which have not yet vested, but as to which he may provide voting recommendations. Includes 11,694 shares which may be acquired by exercising stock options within 60 days. Also includes 23,322 shares owned by Jean Aldrich, Mr. Aldrich s spouse.

(4) Includes 600 shares awarded to these outside directors pursuant to the Company s equity compensation plans which have not yet vested, but as to which they may provide voting recommendations. Includes 11,694 shares which may be acquired by exercising stock options within 60 days.

(5) Includes 600 shares awarded to Mr. Downing pursuant to the Company s equity compensation plans which have not yet vested, but as to which he may provide voting recommendations. Includes 2,000 shares which may be acquired by exercising stock options within 60 days. Also includes 16,192 shares owned by R.H. Downing, Inc., which is 100% owned by Mr. Downing, and 10,000 shares owned by Mary Downing Trust, of which Mr. Downing is trustee.

(6)

Includes 600 shares awarded to Mr. Whitmer pursuant to the Company s equity compensation plans which have not yet vested, but as to which he may provide voting recommendations. Includes 2,000 shares which may be acquired by exercising stock options within 60 days.

(7) Includes 8,800 shares awarded to Mr. Heh pursuant to the Company s equity compensation plans which have not yet vested, but as to which he may provide voting recommendations. Includes 30,465 shares which may be acquired by exercising stock options within 60 days.

(8) Includes 49,500 shares awarded to all directors and executive officers as a group pursuant to the Company s equity compensation plans which have not yet vested, but as to which they may provide voting recommendations. Includes 220,161 shares which may be acquired by exercising stock options within 60 days.

Table of Contents

EQUITY COMPENSATION PLAN INFORMATION. The following table sets forth information about Company common stock that may be issued upon exercise of options, warrants and rights under all of the Company s equity compensation plans as of December 31, 2007.

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available for Future Issuance under Equity Compensation Plans
Equity compensation plans approved by shareholders	299,622	$ 10.94	195,125
Equity compensation plans not approved by shareholders			
Total	299,622	$ 10.94	195,125

MISCELLANEOUS

The Company will pay the cost of this proxy solicitation. The Company will reimburse brokerage firms and other custodians, nominees and fiduciaries for reasonable expenses incurred by them in sending proxy materials to the beneficial owners of the Company s common stock. Directors, officers and regular employees of the Company may also solicit proxies personally or by telephone and will not receive additional compensation for these activities.

SHAREHOLDER PROPOSALS

If a shareholder desires to have a proposal included in the Company s proxy statement and form of proxy for the 2009 annual meeting of shareholders, the proposal must conform to the requirements of Exchange Act Rule 14a-8 and other applicable proxy rules and interpretations of the Securities and Exchange Commission concerning the submission and content of proposals and must be received by the Company, at 2923 Smith Road, Fairlawn, Ohio 44333, prior to the close of business on December 17, 2008.

The Company s Bylaws provide an advance notice procedure for a shareholder to properly bring business before an annual meeting of shareholders. For business to be properly brought before an annual meeting by a shareholder, the business must relate to a proper subject matter for shareholder action and the shareholder must have given timely notice thereof in writing to the Corporate Secretary of the Company. To be timely, a shareholder s notice must be delivered or mailed to and received at the principal executive offices of the Company not less than ninety (90) days prior to the date of the annual meeting; provided, however, that in the event that less than one hundred (100) days notice or prior public disclosure of the date of the meeting is given or made to shareholders, notice by the shareholder to be timely must be received not later than the close of business on the 10th day following the day on which such notice of the date of the annual meeting was mailed or such public disclosure was made. A shareholder s notice to the Corporate Secretary shall set forth as to each matter such shareholder proposes to bring before the annual meeting: (i) a brief description of the business desired to be brought before the annual meeting and the reasons for conducting such business at the annual meeting; (ii) the name and address, as they appear on the Company s books, of the shareholder proposing such business; (iii) the class and number of shares of the Company s capital stock that are beneficially owned by such shareholder; and (iv) any material interest of such shareholder in such business.

Assuming that the 2009 annual meeting of shareholders is held on the third Thursday of May, as has been the Company s recent practice, and that such date is announced at least 100 days in advance, a shareholder s proposal for that meeting must be received by the Company at 2923 Smith Road, Fairlawn, Ohio 44333, not later than the close of business on February 20, 2009, in order to be considered timely. If any such proposal is received after such date, it will be considered untimely, and the persons named in the proxies solicited by the Board of Directors of the Company may exercise discretionary voting power with respect to that proposal.

Table of Contents

Shareholder nominations for director are discussed above under the caption CORPORATE GOVERNANCE AND NOMINATING COMMITTEE.

A COPY OF THE FORM 10-K (WITHOUT EXHIBITS) FOR THE YEAR ENDED DECEMBER 31, 2007, AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION, WILL BE FURNISHED WITHOUT CHARGE TO SHAREHOLDERS OF RECORD UPON WRITTEN REQUEST TO THE CORPORATE SECRETARY, CENTRAL FEDERAL CORPORATION, 2923 SMITH ROAD, FAIRLAWN, OHIO 44333.

BY ORDER OF THE BOARD OF DIRECTORS

Eloise L. Mackus
Corporate Secretary

Fairlawn, Ohio
April 15, 2008

YOU ARE CORDIALLY INVITED TO ATTEND THE ANNUAL MEETING IN PERSON. WHETHER OR NOT YOU PLAN TO ATTEND THE ANNUAL MEETING, YOU ARE REQUESTED TO SIGN, DATE AND PROMPTLY RETURN THE ACCOMPANYING PROXY CARD IN THE ENCLOSED POSTAGE-PAID ENVELOPE.

AUDIT COMMITTEE CHARTER

PURPOSE

The Audit Committee (the Audit Committee) of the Board of Directors (the Board) of Central Federal Corporation (the Company) will be appointed by the Board: (A) to assist the Board in its oversight of (i) the integrity of the Company s financial statements, (ii) the independence and qualifications of the Company s independent registered public accounting firm, (iii) the performance of the Company s internal audit function and independent registered public accounting firm and (iv) the Company s compliance with legal and regulatory requirements and (B) to prepare the Audit Committee report required to be included in the Company s proxy statement.

MEMBERSHIP

The Audit Committee will be comprised of a minimum of three members, each a director who is appointed by the Board on recommendation of the Company s Corporate Governance and Nominating Committee and who shall serve at the pleasure of the Board for such term or terms as the Board may determine. Each member must meet the independence and experience requirements set forth in NASDAQ Rule 4200(a)(15), Section 10A(m)(3) of the Securities Exchange Act of 1934 (the Exchange Act) and the rules and regulations of the Securities Exchange Commission (the Commission), as such requirements may be amended from time to time, and no member may have participated in preparation of the financial statements of the Company at any time during the most recent three-year period.

Each member must be able to read and understand financial statements at the time of appointment. At least one member shall have past employment experience in finance or accounting, requisite professional certification in accounting or any other comparable experience that results in the member s financial sophistication, such as service as a chief executive officer, chief financial officer or other senior officer with financial oversight responsibilities. At least one member shall be an audit committee financial expert as defined in applicable law and regulations; specifically, such member must have (i) an understanding of generally accepted accounting principles and financial statements, (ii) the ability to assess the general application of such principles in connection with accounting for estimates, accruals and reserves, (iii) experience in preparing, auditing, analyzing and evaluating financial statements comparable in breadth and complexity to the Company s financial statements, or experience in actively supervising one or more persons engaged in such activities, (iv) an understanding of internal controls and procedures for financial reporting and (v) an understanding of audit committee functions.

No member of the Audit Committee may accept any consulting, advisory or compensatory fee from the Company, other than in the member s capacity as a member of the Board or a committee of the Board. No member of the Audit Committee may be an affiliated person of the Company, except as a member of the Board or a committee of the Board. No member may serve simultaneously on the audit committees of more than two other public companies, unless the Board determines that such simultaneous service would not impair the ability of such member to serve effectively on the Audit Committee, and the Company discloses this determination in its proxy statement.

In addition, if an Audit Committee member ceases to be independent for reasons outside the member s reasonable control, his or her membership on the Audit Committee may continue until the earlier of the Company s next annual shareholders meeting or one year from the occurrence of the event that caused the failure to qualify as independent. If the Company is not already relying on this provision, and falls out of compliance with the requirements regarding Audit Committee composition due to a single vacancy on the Audit Committee, then the Company will have until the earlier of the next annual shareholders meeting or one year from the occurrence of the event that caused the failure to comply with this requirement. The Company shall provide notice to NASDAQ immediately upon learning of the

event or circumstances that caused the non-compliance, if it expects to rely on either of these provisions for a cure period.

The members of the Audit Committee shall be appointed and may be replaced by the Board.

APPENDIX A-1

MEETINGS

The Audit Committee will meet as often as it deems necessary, but not less frequently than quarterly. It will meet periodically with management, internal auditors and the independent registered public accounting firm in separate executive sessions. The Audit Committee may request any officer or other employee of the Company, the independent registered public accounting firm or outside legal counsel to attend any meeting of the Audit Committee or to meet with any member of or consultant to the Audit Committee.

AUTHORITY AND RESPONSIBILITY

The Audit Committee will have sole authority to appoint or replace the independent registered public accounting firm and will have direct responsibility for compensation and oversight of the independent registered public accounting firm with respect to preparation and issuance of the audit report and related work. The Audit Committee will resolve disputes between management and the independent registered public accounting firm relating to the audit report or related work. The independent registered public accounting firm will report directly to the Audit Committee.

The Audit Committee must approve in advance all audit services and permitted non-audit services to be provided to the Company by the independent registered public accounting firm, including the fees for such services and the terms of service; provided, however, that non-audit services that fall within the *de minimis* exceptions described in Section 10A (i) (1) (B) of the Exchange Act will not require advance approval, if approved by the Audit Committee prior to completion of the audit.

The Audit Committee may form one or more subcommittees, comprised of one or more members of the Audit Committee, and delegate to a subcommittee authority to grant advance approval of audit services and permitted non-audit services; provided, however, that any decision of a subcommittee shall be presented to the full Audit Committee at its next scheduled meeting.

The Audit Committee shall have the authority, to the extent it deems necessary or appropriate, to engage and determine funding for independent legal, accounting, or other advisors. The Company shall provide for appropriate funding, as determined by the Audit Committee, for payment of compensation to the independent registered public accounting firm for the purpose of rendering or issuing an audit report or for performing other audit, review, or attest services for the Company and to any advisors employed by the Audit Committee, as well as funding for the payment of legal fees and ordinary administrative expenses of the Audit Committee that are necessary or appropriate in carrying out its duties.

The Audit Committee will make regular reports to the Board. The Audit Committee will review this charter annually to assess its adequacy and recommend changes to the Board. The Audit Committee will review its own performance annually.

With respect to financial statements and disclosure matters, the Audit Committee, to the extent it deems appropriate, will:

1. Review and discuss with management and the independent registered public accounting firm the annual audited financial statements, including disclosures made in management s discussion and analysis, and recommend to the Board whether the audited financial statements should be included in the Company s Form 10-K.

2.

Review and discuss with management and the independent registered public accounting firm the Company s quarterly financial statements prior to the filing of its Form 10-Q, including the results of the independent registered public accounting firm s review of the quarterly financial statements.

3. Discuss with management and the independent registered public accounting firm significant financial reporting issues and judgments made in connection with the preparation of the Company s financial statements, including any significant changes in the Company s selection or application of accounting principles, any major issues as to the adequacy of the Company s internal controls and any special steps adopted in light of material control deficiencies.

APPENDIX A-2

---

4. Review and discuss with management and the independent registered public accounting firm any major issues as to the adequacy of the Company s internal controls, any special steps adopted in light of material control deficiencies, and the adequacy of disclosures about changes in internal control over financial reporting.

5. Review and discuss with management (including the senior internal audit executive) and the independent registered public accounting firm the Company s internal controls report and the independent registered public accounting firm s attestation of the report prior to the filing of the Company s Form 10-K.

6. Review and discuss quarterly reports from the independent registered public accounting firm on: (a) all critical accounting policies and practices to be used; (b) all alternative treatments of financial information within generally accepted accounting principles that have been discussed with management, ramifications of the use of such alternative disclosures and treatments, and the treatment preferred by the independent registered public accounting firm; (c) other material written communications between the independent registered public accounting firm and management, such as any management letter or schedule of unadjusted differences.

7. Discuss with management the Company s earnings press releases, including the use of pro forma or adjusted non-GAAP information, as well as financial information and earnings guidance provided to analysts and rating agencies. Such discussion may be done generally (consisting of discussing the types of information to be disclosed and the types of presentations to be made).

8. Discuss with management and the independent registered public accounting firm the effect of regulatory and accounting initiatives as well as off-balance sheet structures on the Company s financial statements.

9. Discuss with management the Company s major financial risk exposures and the steps management has taken to monitor and control such exposures, including the Company s risk assessment and risk management policies.

10. Discuss with the independent registered public accounting firm the matters required to be discussed by Statement on Auditing Standards No. 61 relating to the conduct of the audit, including any difficulties encountered in the course of the audit work, any restrictions on the scope of activities or access to requested information, and any significant disagreements with management.

11. Review disclosures made to the Audit Committee by the Company s CEO and CFO during their certification process for the Form 10-K and Form 10-Q about any significant deficiencies in the design or operation of internal controls or material weaknesses therein and any fraud involving management or other employees who have a significant role in the Company s internal controls.

12. Ensure that a public announcement of the Company s receipt of an audit opinion that contains a going concern qualification is made no later than seven calendar days following the filing of such an audit opinion with the Securities and Exchange Commission.

In connection with its oversight of the Company s relationship with its independent registered public accounting firm, the Audit Committee, to the extent it deems appropriate, will:

1. Review and evaluate the lead partner of the independent registered public accounting firm s team.

2. Obtain and review a report from the independent registered public accounting firm at least annually regarding (a) the independent registered public accounting firm s SIZE="3" style="COLOR:#999999" WIDTH="100%" ALIGN="CENTER">

Table of Contents

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

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

Overview

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

In July 2012, we acquired AIT to add customer base in the semiconductor and medical spaces and to provide additional manufacturing capabilities. In November 2014, we acquired a privately held company, Prototype Asia, to support our 3D printing business. In February 2015, we acquired substantially all of the assets of Marchi to expand our capabilities with our existing customers and bring us closer to the customer in the design stage of new products and next generation equipment.

In October 2014, a relatively new customer, GTAT, filed for bankruptcy. This event had an impact on the Company s earnings for fiscal year 2014. As a result, approximately $2.8 million of revenue that would have otherwise been recorded for shipments to GTAT was not recognized, $1.6 million of account receivables was written off to bad debt expense for shipments made prior to October of 2014, and approximately $4.6 million of on-hand and non-cancelable inventory commitments was written off to cost of goods sold.

Our sales were $514.0 million for fiscal year 2014, $444.0 million for fiscal year 2013, and $403.4 million for fiscal year 2012. Our three largest customers in fiscal year 2014 and 2013 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 2014 and 2013. Our three largest customers in 2012 were Applied Materials, Inc., Lam Research Corporation and Intuitive Surgical, two of which each accounted for 10% or more of our total sales for fiscal year 2012. As a group, these customers accounted for 76%, 81% and 80% of the Company s sales for fiscal years 2014, 2013 and 2012, respectively.

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

Effective February 2015, we came to an agreement with ISI to transition to insourced manufacturing for their next generation robot. We will continue to manufacture previous generation robots and also assist with

Table of Contents

machined components and spare parts for current and future ISI production. The impact of this change is approximately $5.0 to $6.0 million in revenue per quarter.

Results of Operations

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

	Year Ended		
	December 26, 2014	**December 27, 2013**	**December 28, 2012**
Sales	100.0%	100.0%	100.0%
Cost of goods sold	85.8	84.8	86.2
Gross profit	14.2	15.2	13.8
Operating expenses:			
Research and development	1.4	1.2	1.3
Sales and marketing	2.0	2.2	1.7
General and administrative	7.3	8.1	8.1
Acquisition costs			0.6
Total operating expenses	10.7	11.5	11.8
Income from operations	3.5	3.6	2.1
Interest and other income (expense), net	(0.3)	(0.7)	(0.4)
Income before provision for income taxes	3.2	2.8	1.7
Income tax provision	1.0	0.5	0.4
Net income	2.2%	2.3%	1.3%

Fiscal Year 2014 Compared With Fiscal Year 2013

Sales

Sales for fiscal year 2014 increased $69.9 million, or 15.8% to $514.0 million from $444.0 million for fiscal year 2014. The increase in sales for the fiscal year ended 2014 when compared to the same period of 2013 reflects an increase in semiconductor sales of $33.2 million and an increase in non-semiconductor sales of $36.8 million. The increase in overall sales for fiscal year 2014 compared to the same period in fiscal year 2013 is due primarily to an increase in the volume of products shipped, which is attributable to some recovery in customer demand from 2013 levels and, to a lesser degree, to the addition of a relatively new non-semiconductor customer, GTAT, who declared bankruptcy in October of 2014. On a geographic basis, sales in the U.S. increased by $44.1 million to $361.7 million, or 70.4% of sales, for the year ended December 26, 2014 as compared to $317.6 million, or 71.5% of

sales for the same period of 2013. Foreign sales increased by $25.9 million to $152.3 million, or 29.6% of sales, for the year ended December 26, 2014 as compared to $126.4 million, or 28.5% of sales, for the same period of 2013. The increase in foreign sales is due in part to the recovery in customer demand as well as to the addition of the new customer discussed above in Asia (that subsequently declared bankruptcy in October 2014). We expect sales to increase modestly in the first quarter of 2015 as compared to the fourth quarter of 2014 as we consolidate results for our newly-acquired company, Marchi.

Gross Profit

Cost of goods sold consists primarily of purchased materials, inventory reserves and labor and overhead, including depreciation, associated with the design and manufacture of products sold. Gross profit for fiscal year 2014 increased to $73.1 million or 14.2% of sales, from $67.3 million, or 15.2% of sales, for fiscal year 2013. Our gross margin percentage decreased in fiscal 2014 from the comparable period in 2013 due primarily to the

Table of Contents

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 to cost of goods sold. The increase in absolute dollars of gross profit when comparing fiscal year 2014 with 2013 is primarily 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, offset to a degree by the charges in the third quarter as described above related to the declaration of bankruptcy of GTAT. We expect gross profit to be slightly higher in the first quarter of 2015, as compared to the fourth quarter of fiscal 2014, primarily as a result of modestly higher expected sales in the first quarter of 2015.

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 2014 was $7.1 million or 1.4% of sales, compared to $5.5 million, or 1.2% of sales, for fiscal year 2013. The increase in research and development expense in absolute dollars was due primarily to the timing of reassignment of existing resources to research and development activities and, to a lesser degree, to an increase in headcount.

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 $0.6 million, or 6.1%, to $10.4 million, or 2.0% of sales, compared to $9.8 million, or 2.2% of sales, in the comparable period of 2013. The increase in the sales and marketing expense was primarily due to higher salaries and commissions resulting from higher headcount and revenues.

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 increased $1.4 million, or 3.9%, to $37.5 million, or 7.3% of sales, for fiscal year 2014 compared to $36.0 million, or 8.1% of sales, for fiscal year 2013. The increase is primarily due to headcount related costs, including salaries, bonuses and stock compensation, and by the write-off of $1.6 million of accounts receivable as a result of the bankruptcy of GTAT in October 2014, offset by a decrease in the amortization of finite-lived intangibles associated with the AIT acquisition.

Interest and Other Income (Expense), net

Interest and other income (expense), net for fiscal year 2014 was $(1.9) million compared to $(3.3) million for fiscal year 2013. The decrease in net expense was primarily due to the decrease in outstanding debt in fiscal year 2014.

Income Tax Provision

Our effective tax rate for fiscal year 2014 was 30.5% compared to 17.3% for fiscal year 2013. The change in respective rates reflects, primarily, a charge in the third quarter of fiscal 2014 related to recording a valuation allowance on our California and Oregon deferred tax assets, and to a lesser degree, a change in the geographic mix of worldwide earnings and financial results for fiscal year 2014 compared to fiscal year 2013. Our effective tax rate was lower than the statutory rates for fiscal year 2014 primarily due to the geographic distribution of our

33

world-wide earnings in foreign jurisdictions with lower tax rates or tax holidays, such as the tax holiday we are currently enjoying in Singapore, offset by a valuation allowance against our California and Oregon deferred tax assets. Our effective tax rate was lower than the statutory rates for fiscal year 2013 primarily due to the geographic distribution of our world-wide earnings in foreign jurisdictions with lower tax rates or tax holidays.

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.

In the third quarter of 2014, we weighed both positive and negative evidence and concluded that a full valuation allowance on our California and Oregon deferred tax assets was appropriate. Among the negative evidence was the declaration of bankruptcy of GTAT during the third quarter of 2014 and its impact on our ability to generate enough future taxable income in California and Oregon to fully utilize net operating loss carryforwards in those states before they expire. As such, management concluded that it was not more likely than not that the California and Oregon deferred tax assets will be realized and recorded a tax charge of $2.8 million in fiscal year 2014.

As of December 26, 2014, we continue to maintain a full valuation allowance on the deferred assets of one of our China subsidiaries in the amount of $1.4 million as we believe it is more likely than not that the deferred tax asset will not be realized. In order to reverse a valuation allowance, accounting principles generally accepted in the United States of America suggests that we review both positive and negative evidence, including our recent cumulative income/loss to determine if we are more likely than not to generate sufficient future taxable income to realize our net deferred tax assets.

We performed a twelve quarter analysis of our U.S. cumulative pretax profit position as of December 26, 2014 and, weighing both positive and negative evidence, determined that it is more likely than not that we will have the ability to generate sufficient taxable income over the foreseeable future to realize our U.S. federal deferred tax assets. Therefore, we concluded that a valuation allowance on our U.S. federal tax assets was not required. 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.

Beginning 2013, we determined that a portion of the current year annual 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. Accordingly, no provisions for U.S. taxes have been provided thereon. In addition, 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 2013 Compared With Fiscal Year 2012

Sales

Sales for fiscal year 2013 increased $40.6 million, or 10.1% to $444.0 million from $403.4 million for fiscal year 2012. The increase in sales during the fiscal year 2013 was due primarily to our acquisition of AIT in July 2012 which resulted in the inclusion of sales of $122.4 million from AIT, compared to $63.8 million of sales from AIT for fiscal year 2012. Sales for UCT when excluding sales from AIT were lower during the twelve months ended December 27, 2013 when compared to fiscal year 2012 due to factors including the termination of our arrangement with FEI at the end of the first quarter of 2012, the determination by one of our larger semiconductor equipment customers to in-source a portion of their gas panel business, as well as an overall

Table of Contents

downturn in the semiconductor industry beginning in the third quarter of 2012 which did not impact AIT until the beginning of the fourth quarter of 2012.

Gross Profit

Gross profit for fiscal year 2013 increased to $67.3 million or 15.2% of sales, from $55.8 million, or 13.8% of sales, for fiscal year 2012. Our gross margin increased in fiscal 2013 from the comparable period in 2012 due primarily to sales mix which included higher margin products, certain improvements in operational efficiencies at our manufacturing locations, favorable work order variances and a reduction in floor stock costs, partially offset by in an increase in inventory reserves.

Research and Development Expense

Research and development expense for fiscal year 2013 was $5.5 million or 1.2% of sales, compared to $5.1 million, or 1.3% of sales, for fiscal year 2012. The increase in research and development expense in absolute dollars was primarily attributable to an increase in headcount and related payroll expenses.

Sales and Marketing Expense

Sales and marketing expense increased $2.8 million, or 39.8%, to $9.8 million, or 2.2% of sales, compared to $7.0 million, or 1.7% of sales, in the comparable period of 2012. The increase in the sales and marketing expense was primarily due to the inclusion of sales and marketing expenses generated from AIT for the full twelve months ended December 27, 2013 compared to six months in the previous year ended December 28, 2012. We also incurred additional costs during the year ended December 27, 2013 related to an increase in headcount and headcount related costs, including salaries, commissions and bonuses due to increased revenues and operating income in the fiscal year 2013 compared to the fiscal year 2012.

General and Administrative Expense

General and administrative expense increased $3.2 million, or 9.7%, to $36.0 million, or 8.1% of sales, for fiscal year 2013 compared to $32.9 million, or 8.1% of sales, for fiscal year 2012. The increase is primarily due to amortization of finite-lived intangibles associated with the AIT acquisition and incremental costs associated with the AIT acquisition for a full year in fiscal year 2013 compared to a six month period in fiscal year 2012 which include headcount related costs, including salaries, bonuses and stock compensation.

Acquisition Costs

There were no acquisition costs in fiscal 2013 compared to approximately $2.4 million in fiscal 2012. These costs were associated with our purchase of AIT and consisted primarily of professional fees and services in connection with the acquisition.

Interest and Other Income (Expense), net

Interest and other income (expense), net for fiscal year 2013 was $(3.3) million compared to $(1.6) million for fiscal year 2012. The increase in net expense was primarily due to the increase in outstanding debt beginning in the third quarter of 2012 resulting from the acquisition of AIT.

Income Tax Provision

Our effective tax rate for fiscal year 2013 was 17.3% compared to 23.1% for fiscal year 2012. The change in respective rates reflects, primarily, a change in the geographic mix of worldwide earnings and financial results for fiscal year 2013 compared to fiscal year 2012 as well as changes in our deferred tax assets and our accrual for

Table of Contents

uncertain tax positions. Our effective tax rate was lower than the statutory rates for fiscal years 2013 and 2012 primarily due to the geographic distribution of our world-wide earnings in foreign jurisdictions with lower tax rates or tax holidays.

As of December 27, 2013, we maintained a full valuation allowance on the deferred assets of one of our China subsidiaries in the amount of $0.7 million as we believed it was more likely than not that the deferred tax asset would not be realized.

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 2014, 2013 and 2012 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;
- we ship the products;
- customer payment is deemed fixed or determinable and free of contingencies or significant uncertainties; and
- collection is reasonably assured.

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

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

Inventory Valuation

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

Obsolete inventory or inventory in excess of our estimated usage is written down to its estimated market value less costs to sell, if less than its cost. The inventory write-downs are recorded as an inventory valuation allowance established on the basis of obsolete inventory or specific identified inventory in excess of established usage. Inherent in our estimates of demand and market value in determining inventory valuation are estimates related to economic trends, future demand for our products and technological obsolescence of our products. If actual demand and market conditions are less favorable than our projections, additional inventory write-downs may be required. If the inventory value is written down to its net realizable value, and subsequently there is an increased demand for the inventory at a higher value, the increased value of the inventory is not realized until the inventory is sold either as a component of a subsystem or as separate inventory. For fiscal years 2014, 2013 and 2012, we wrote down $4.6 million, including $2.6 million of inventory written off as part of the GTAT bankruptcy in the third quarter of 2014, $1.5 million and $1.2 million in inventory determined to be obsolete, respectively.

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 26, 2014, the Company maintained full valuation allowances on the deferred tax assets of one of its China subsidiaries in the amount of $1.4 million and for California and Oregon deferred tax assets in the amount of $2.8 million as we believe it is more likely than not that these deferred tax assets will not be realized.

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 2011 through 2013 federal income tax returns are open to audit through the statute of limitations by the Internal Revenue Service. The Company s 2010 through 2013 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. We are currently enjoying a zero rate tax holiday in Singapore that is

scheduled to expire at the end of fiscal year 2015. This tax rate is subject to achieving certain commitments agreed to with the Economic Development Board of Singapore including investment and employment thresholds. Our tax rate could be significantly affected if we are unable to meet these commitments or if we are unable to favorably renegotiate the commitment requirements.

Table of Contents

Business Combinations

In accordance with business combination accounting, we allocate the purchase price of acquired companies to the tangible and intangible assets acquired and liabilities assumed based on their estimated fair values. We may engage third-party 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.

Equity Incentives to Employees

We issue stock options and restricted stock units to our employees and outside directors and provide our employees the right to purchase common stock under our employee stock purchase plan. Under current

accounting guidance, stock-based compensation cost is measured at the grant date based on the fair value of the award and is recognized as expense over the service (vesting) period.

The Black-Scholes option-pricing model that we use was developed for use in estimating the fair value of short-lived exchange traded options that have no vesting restrictions and are fully transferable. In addition, option-pricing models require the input of highly subjective assumptions, including the option s expected life and the price volatility of underlying stock. Our expected stock price volatility assumption was determined using the historical volatility of our common stock. We determined that historical volatility reflects market conditions and is a good indicator of future volatility. Our expected term represents the period that our stock-based awards are expected to be outstanding and was determined based on our historical experience with similar awards, giving consideration to the contractual terms of the stock-based awards and vesting schedules. See Note 8 to the Notes to Consolidated Financial Statements for a detailed description

Table of Contents

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)
2014						
Sales		$ 144,224	$ 132,677	$ 117,041	$ 120,015	$ 513,957
Gross profit		$ 23,311	$ 21,152	$ 10,307	$ 18,363	$ 73,133
Net income (loss)		$ 7,056	$ 6,031	$ (5,262)	$ 3,532	$ 11,357
Earnings (loss) per share	basic	$ 0.24	$ 0.20	$ (0.18)	$ 0.12	$ 0.39
Earnings (loss) per share	diluted	$ 0.24	$ 0.20	$ (0.18)	$ 0.12	$ 0.38
2013						
Sales		$ 100,464	$ 110,107	$ 107,183	$ 126,268	$ 444,022
Gross profit		$ 13,823	$ 16,103	$ 15,833	$ 21,570	$ 67,329
Net income (loss)		$ (311)	$ 2,316	$ 2,048	$ 6,371	$ 10,424
Earnings (loss) per share	basic	$ (0.01)	$ 0.08	$ 0.07	$ 0.22	$ 0.37
Earnings (loss) per share	diluted	$ (0.01)	$ 0.08	$ 0.07	$ 0.22	$ 0.36

(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 required capital principally to fund our acquisitions and working capital needs, satisfy our debt obligations, maintain our equipment and purchase new capital equipment. As of December 26, 2014, we had cash and cash equivalents of $79.0 million compared to $60.4 million as of December 27, 2013. Our cash and cash equivalents, as well as cash generated from operations, was our principal source of liquidity as of December 26, 2014.

For the twelve months ended December 26, 2014, we generated cash from operating activities of $30.4 million, an increase of $0.5 million when compared to $29.9 million for fiscal 2013. Cash generated from operating activities for fiscal 2013 represented an increase of $2.6 million when compared to $27.3 million for fiscal 2012. Operating cash flows generated in the twelve months ended December 26, 2014, were from $11.4 million of net income; net non-cash activity, including depreciation of equipment and leasehold improvements and amortization of intangibles and debt issuance costs of a total $8.4 million and stock-based compensation of $4.4 million; and decreases in accounts receivable, inventory and deferred income of $5.6 million and $7.1 million and $2.2 million, respectively. The decrease in inventory reflects, in part, improvement in inventory management over the previous year and, in part, the write-off related to the GTAT bankruptcy. These were offset by a net

decrease in accounts payable, accrued compensation and related benefits and other current liabilities of $6.2 million, and an increase in prepaid expenses and other assets of $2.5 million. Operating cash flows generated in the twelve months ended December 27, 2013, were from $10.4 million of net income; net non-cash activity, including depreciation of equipment and leasehold improvements and amortization of intangibles and debt issuance costs of a total $9.6 million and stock-based compensation of $4.7 million; and decreases in accounts receivable and inventory of $17.4 million and $9.1 million, respectively. The decrease in inventory reflects the substantial improvement in inventory management over the previous year. These were offset by a net increase in accounts payable and other current liabilities of $31.0 million, and an

increase in accrued compensation and related benefits of $1.1 million. Our cash flows from operations in any given period are largely driven by the timing of sales, the collection of accounts receivable and the payment of accounts payable.

Net cash used in investing activities for the twelve months ended December 26, 2014, was $5.1 million, consisting mainly of $5.3 million capital equipment expenditures in Asia similar to the capital expenditures in 2013 which reflects our continued investment in our Asian subsidiaries. Net cash used in investing activities for fiscal 2013 was $2.9 million. The net cash used in investing activities in 2013 consisted mainly of purchases of equipment of $3.0 million.

Net cash used in financing activities for the twelve months ended December 26, 2014, was $6.6 million, a decrease of $14.3 million when compared to net cash used by financing activities of $21.0 million for the comparable period of 2013. For the twelve months ended December 26, 2014, our cash provided by financing activities was due primarily to proceeds of $48.5 million from our revolving line of credit, offset by payments of $46.0 million to the same revolving line of credit. We also made payments of $10.0 million to our facility term loan. Net cash used in financing activities for fiscal 2013 represented a change of $71.3 million when compared to cash provided of $50.4 million for fiscal 2012. The decrease in cash from financing activities in 2013 was due primarily to $84.0 million of principal payments offset by cash proceeds of $63.0 million from our revolving line of credit. See Borrowing Arrangements below for information regarding our new borrowing arrangements entered into to refinance amounts outstanding under our existing credit facility and fund the cash portion of the purchase price in connection with our acquisition of Marchi on February 5, 2015.

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. Accordingly, no provisions for U.S. income taxes have been provided thereon. In addition, if we change our intent to reinvest our undistributed foreign earnings indefinitely or if a greater amount of undistributed earnings are needed than the previous 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 26, 2014, we had undistributed earnings of foreign subsidiaries that are

indefinitely invested outside of the U.S. of approximately $57.6 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 earnings to the U.S. As of December 26, 2014, we have cash of approximately $57.9 million in our foreign subsidiaries.

Table of Contents

Borrowing Arrangements

As of December 26, 2014, we had borrowing arrangements with Silicon Valley Bank under a Loan and Security Agreement (the Loan Agreement) which included a $40.0 million revolving credit facility (revolver), maturing on July 3, 2016, and a $40.0 million term loan (term loan), maturing on July 3, 2016. The aggregate amount of the revolver was secured by substantially all of our assets. As of December 26, 2014, the outstanding balances of the term loan and revolver were $17.5 million and $31.3 million, respectively.

The interest rate on the revolver during the twelve months ended December 26, 2014 was 3.75%. Pursuant to the Loan Agreement, the term loan bears interest per annum at a variable rate equal to the greater of prime rate, as defined per the loan agreement, plus a margin of 75 basis points. During the twelve months ended and as of December 26, 2014, the interest rate on the outstanding term loan was 3.75%. The Loan Agreement contains a number of financial and reporting covenants. We were in compliance with all of such covenants as of December 26, 2014.

In February 2015, we entered into a new credit agreement (the Credit Agreement) by and among us, certain of our subsidiaries, East West Bank and Citi National Bank (collectively, the Lenders). The Credit Agreement provides for a term loan in an aggregate principal amount of $40.0 million (the New Term Loan) and a revolving credit facility in an aggregate principal amount of $40.0 million (the New Revolving Credit Facility), a letter of credit facility in the aggregate availability amount of $20.0 million (as a sublimit of such New Revolving Credit Facility) (the L/C Facility) and a swingline sub-facility in the aggregate availability amount of $5.0 million (as a sublimit of the New Revolving Credit Facility) (together with the Term Loan, the Revolving Credit Facility and the L/C Facility, the Senior Secured Credit Facility). On February 2, 2015, we borrowed an aggregate of $40.0 million under the New Term Loan and approximately $6.5 million under the New 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 and, as a result, the outstanding balance of the revolver of $31.3 million was classified as long-term debt as of December 26, 2014 in accordance with the terms of the new debt agreement. In addition, we will expense the unamortized debt issuance costs of approximately $0.7 million in the first quarter of 2015. On February 5, 2015, in connection with the acquisition of Marchi, we borrowed $29.7 million under the New Revolving Credit Facility. The borrowed funds were used to finance the acquisition.

The New Term Loan must be repaid in consecutive quarterly installments of $2.5 million, with the first payment due on March 31, 2015, and with the balance of the outstanding principal amount of the New Term Loan due at the final maturity, which is February 2, 2019. The New Revolving Credit Facility is available for the four-year period beginning on February 2, 2015. The Credit Agreement includes customary representations, warranties, covenants and events of default. We and certain of our subsidiaries have agreed to secure all of their obligations under the Credit Agreement by granting a first priority lien in substantially all of our respective personal property assets (subject to certain exceptions and limitations).

At our option, borrowings under the New Term Loan and New Revolving Credit Facility (subject to certain limitations) bear interest at either a base rate or at the London Interbank Offered Rate (LIBOR) (with the LIBOR being adjusted for certain Eurocurrency reserve requirements, if any, as described in the Credit Agreement), plus, in each case, an applicable margin based on our consolidated leverage ratio. All loans described above made on February 2, 2015 and February 5, 2015 were initially base rate

loans, carrying interest of 3.25%. We expect, however, that the effective interest rate will be higher due to the incurrence of certain loan-related costs that will be treated as debt discount and amortized over the life of the loan.

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 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.

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.

Capital Expenditures

Capital expenditures were $5.5 million for the year ended December 26, 2014.

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 26, 2014 (in thousands):

	2015	2016	2017	2018	2019 and thereafter	Total
Operating leases (1)	$ 5,710	5,021	4,388	3,241	9,818	28,178
Borrowing Arrangement (2)	10,000	38,844				48,844
Purchase order commitments	31,223					31,223
Total	$ 46,933	$ 43,865	$ 4,388	$ 3,241	$ 9,818	$ 108,245

(1) Operating lease obligations reflects (a) the lease for our headquarters facility in Hayward, California that expires in 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 2015 thru 2016; (d) the lease for a manufacturing facility in Singapore that was entered into in October 2014 that expires in 2017; (e) the leases for manufacturing facilities in Austin, Texas that expire in 2016; (f) the leases for manufacturing facilities in Chandler, Arizona that expire in 2017;

and (g) the leases for manufacturing facilities in Pflugerville, Texas that expire in 2018. We have options to renew certain of the leases in South San Francisco, Hayward, Austin and Singapore which we expect to exercise.

(2) Amounts reflect obligations under our Credit Facility gross of $0.7 million of unamortized debt issuance costs, under which $17.5 million is outstanding under the Term Loan and approximately $31.3 million under the Revolving Credit Facility as of December 26, 2014. The Term Loan must be repaid in consecutive quarterly installments of $2.5 million and with the balance of the outstanding principal amount of the Term Loan due at the final maturity, which is July 3, 2016. The Revolving Credit Facility is available for the four-year period beginning on July 3, 2012. In February 2015, the Company entered into a new credit agreement (the Credit Agreement) by and among the Company, certain of its subsidiaries, East West Bank and Citi National Bank (collectively, the Lenders). On February 2, 2015, we borrowed an aggregate of $40.0

Table of Contents

million under the New Term Loan and approximately $6.5 million under the New 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 and, as a result, the outstanding balance of the revolver of $31.3 million was classified as long-term debt as of December 26, 2014. In addition, we will expense the unamortized debt issuance costs of approximately $0.7 million in the first quarter of 2015. See Note 5 to the Notes to Consolidated Financial Statements for further discussion.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

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

Foreign Exchange Rates

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

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

Interest Rates

Our interest rate risk relates primarily to our debt which totals $48.2 million (net of debt issuance costs) as of December 26, 2014, and carries interest rates pegged to either the prime rate or LIBOR. An immediate increase in interest rates of 100 basis points would increase our interest expense by approximately $0.1 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 $0.1 million per quarter. This would be partially offset by decreased interest income on our invested cash.

Table of Contents

Item 8. Financial Statements and Supplementary Data

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Report of Independent Registered Public Accounting Firm	45
Consolidated Balance Sheets as of December 26, 2014 and December 27, 2013	46
Consolidated Statements of Operations for the years ended December 26, 2014, December 27, 2013 and December 28, 2012	47
Consolidated Statements of Stockholders Equity for the years ended December 26, 2014, December 27, 2013 and December 28, 2012	48
Consolidated Statements of Cash Flows for the years ended December 26, 2014, December 27, 2013 and December 28, 2012	49
Notes to Consolidated Financial Statements	50

Table of Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of

Ultra Clean Holdings, Inc.

Hayward, California

We have audited the accompanying consolidated balance sheets of Ultra Clean Holdings, Inc. and subsidiaries (the Company) as of December 26, 2014 and December 27, 2013, and the related consolidated statements of operations, stockholders equity, and cash flows for each of the three years in the period 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 audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Ultra Clean Holdings, Inc. and subsidiaries as of December 26, 2014 and December 27, 2013, and the results of their operations and their cash flows for each of the three years in the period ended December 26, 2014, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company s internal control over financial reporting as of December 26, 2014, based on the criteria established in *Internal Control Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 11, 2015, expressed an unqualified opinion on the Company s internal control over financial reporting.

/s/ Deloitte & Touche LLP

San Jose, California

March 11, 2015

Table of Contents

Ultra Clean Holdings, Inc.

Consolidated Balance Sheets

	December 26, 2014	December 27, 2013
	(In thousands, except share and per share amounts)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 78,997	$ 60,415
Accounts receivable, net of allowance of $81 and $5, respectively	61,817	67,450
Inventory	56,850	63,942
Deferred tax assets	3,777	4,071
Prepaid expenses and other	7,006	4,581
Total current assets	208,447	200,459
Equipment and leasehold improvements, net	10,841	8,534
Goodwill	55,918	55,918
Purchased intangibles, net	16,824	21,708
Deferred tax assets	3,445	5,341
Other non-current assets	667	583
Total assets	$ 296,142	$ 292,543
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Bank borrowings	$ 9,541	$ 37,705
Accounts payable	48,944	53,962
Accrued compensation and related benefits	5,308	5,730
Deferred rent, current portion	245	262
Other current liabilities	2,130	2,385
Total current liabilities	66,168	100,044
Long-term debt	38,614	17,421
Deferred rent and other liabilities	2,808	3,149
Total liabilities	107,590	120,614
Commitments and contingencies (See Note 11)		
Stockholders equity:		
Preferred stock $0.001 par value, 10,000,000 authorized; none outstanding		

Common stock $0.001 par value, 90,000,000 authorized; 29,562,338 and 28,694,762	30	29
Additional paid-in capital	153,141	147,876
Common shares held in treasury, at cost, 601,944 shares in 2014 and 2013, respectively	(3,337)	(3,337)
Retained earnings	38,718	27,361
Total stockholders equity	188,552	171,929
Total liabilities and stockholders equity	$ 296,142	$ 292,543

(See notes to consolidated financial statements)

Table of Contents

Ultra Clean Holdings, Inc.

Consolidated Statements of Operations

	Twelve Months Ended		
	December 26, 2014	December 27, 2013	December 28, 2012
	(In thousands, except per share amounts)		
Sales	$ 513,957	$ 444,022	$ 403,430
Cost of goods sold	440,824	376,693	347,642
Gross profit	73,133	67,329	55,788
Operating expenses:			
Research and development	7,067	5,543	5,121
Sales and marketing	10,432	9,831	7,033
General and administrative	37,450	36,047	32,858
Acquisition costs			2,431
Total operating expenses	54,949	51,421	47,443
Income from operations	18,184	15,908	8,345
Interest and other income (expense), net	(1,854)	(3,309)	(1,648)
Income before provision for income taxes	16,330	12,599	6,697
Income tax provision	4,973	2,175	1,544
Net income	$ 11,357	$ 10,424	$ 5,153
Net income per share:			
Basic	$ 0.39	$ 0.37	$ 0.20
Diluted	$ 0.38	$ 0.36	$ 0.20
Shares used in computing net income per share:			
Basic	29,301	28,346	25,698
Diluted	29,936	29,037	26,261

(See notes to consolidated financial statements)

Table of Contents

Ultra Clean Holdings, Inc.

Consolidated Statements of Stockholders Equity

	Common Stock		Additional Paid-in Capital	Retained Earnings	Total Stockholders Equity
	Shares	Amount			
	(in thousands, except share amounts)				
Balance December 30, 2011	22,910,649	$ 23	$ 105,478	$ 11,784	$ 117,285
Issuance of restricted common stock	30,000				
Issuance under employee stock plans	514,889	1	326		327
Amortization of stock-based compensation			5,069		5,069
Excess tax benefit from stock-based compensation			62		62
Employees taxes paid upon vesting of restricted stock units	(44,687)		(341)		(341)
Common stock issued for acquisition of AIT, net of equity issuance costs	4,500,000	4	29,221		29,225
Net income				5,153	5,153
Balance December 28, 2012	27,910,851	28	139,815	16,937	156,780
Issuance of restricted common stock	30,000				
Issuance under employee stock plans	849,368	1	773		774
Amortization of stock-based compensation			4,685		4,685
Excess tax benefit from stock-based compensation			(140)		(140)
Employees taxes paid upon vesting of restricted stock units	(95,457)		(594)		(594)
Net income				10,424	10,424
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

(See notes to consolidated financial statements)

Table of Contents

Ultra Clean Holdings, Inc.

Consolidated Statements of Cash Flows

	Twelve Months Ended		
	December 26, 2014	December 27, 2013	December 28, 2012
		(In thousands)	
Cash flows from operating activities:			
Net income	$ 11,357	$ 10,424	$ 5,153
Adjustments to reconcile net income to net cash provided by			
Loss from disposal of fixed assets		329	
Depreciation	3,004	3,119	3,195
Amortization of finite-lived intangibles	4,884	5,994	3,786
Amortization of debt issuance costs	529	487	236
Excess tax benefit from stock-based compensation	(284)	140	(62)
Stock-based compensation	4,400	4,685	5,069
Changes in assets and liabilities, net of AIT acquisition:			
Accounts receivable	5,633	(17,376)	8,047
Inventory	7,092	(9,133)	24,282
Prepaid expenses and other	(2,425)	(668)	(175)
Deferred income tax	2,190	78	(2,731)
Other non-current assets	(84)	(53)	(114)
Accounts payable	(5,186)	30,644	(19,498)
Accrued compensation and related benefits	(422)	1,119	(1,055)
Income taxes payable	284	(141)	63
Other liabilities	(613)	283	1,143
Net cash provided by operating activities	30,359	29,931	27,339
Cash flows from investing activities:			
Purchases of equipment and leasehold improvements	(5,334)	(2,963)	(609)
AIT acquisition, net of cash acquired			(74,945)
Proceeds from sale of equipment	191	96	
Net cash used in investing activities	(5,143)	(2,867)	(75,554)
Cash flows from financing activities:			
Proceeds from revolving credit facilities	48,500	63,000	96,824
Proceeds from long-term loans			40,000
Principal payments on revolving credit facilities	(46,000)	(74,000)	(76,462)
Principal payments on long-term debt and capital lease	(10,000)	(10,000)	(7,758)

Payments of debt issuance costs						(1,940)
Payments of equity issuance costs						(341)
Excess tax benefit from stock-based compensation		284		(140)		62
Employees taxes paid upon vesting of restricted stock units		(1,358)		(594)		(341)
Proceeds from issuance of common stock		1,940		774		327
Net cash provided by (used in) financing activities		(6,634)		(20,960)		50,371
Net increase in cash		18,582		6,104		2,156
Cash and cash equivalents at beginning of year		60,415		54,311		52,155
Cash and cash equivalents at end of year	$	78,997	$	60,415	$	54,311
Supplemental cash flow information:						
Income taxes paid	$	3,525	$	1,578	$	5,311
Income tax refunds	$	1,356	$	22	$	682
Interest paid	$	2,035	$	2,238	$	1,551
Non-cash investing and financing activities:						
Fair value of common shares issued for acquisition	$		$		$	29,565
Restricted stock issued	$	7,190	$	3,584	$	4,763
Fixed asset purchases included in accounts payable	$	348	$	180	$	13

(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. (UCT or the Company) 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. In June 2006, the Company completed the acquisition of Sieger Engineering, Inc. to better enhance its position as a subsystem supplier to the semiconductor, consumer, medical, energy, industrial, flat panel and research industries. Ultra Clean Technology (Shanghai) Co., Ltd and Ultra Clean Micro-Electronics Equipment (Shanghai) Co., Ltd. were established in 2005 and 2007, respectively, to facilitate the Company s operations in China. Ultra Clean Asia Pacific, Pte, Ltd. (Singapore), was established in fiscal year 2008 to facilitate the Company s operations in Singapore. In July 2012, the Company acquired American Integration Technologies LLC (AIT) to immediately add to the Company s customer base in the semiconductor and medical markets. In November 2014, the Company launched its 3D printing business through a $40,000 acquisition of a privately held company, Prototype Asia, to develop additive manufacturing capability for the Company s customer base. The Company operates in one reportable segment. See Note 10 to the Notes to Consolidated Financial Statements.

The Company is a leading developer and supplier of critical subsystems for Original Equipment Manufacturers primarily in the semiconductor, consumer, medical, energy, industrial, flat panel and research industries. The Company develops, designs, prototypes, engineers, manufactures and tests systems and subsystems which are highly specialized and integral to the Company s customers products.

The Company provides its customers with complete solutions that combine its expertise in design, testing, component characterization and highly flexible global manufacturing operations with excellence in quality control and financial stability. The Company s global presence and supply chain management helps the Company to drive down total manufacturing costs, reduce design-to-delivery cycle times and maintain high quality standards for the Company s customers. The Company believes that these characteristics provide global solutions for the Company s customers growing product demands.

The Company ships a majority of its products to U.S. registered customers with locations both in the U.S. and outside the U.S. In addition to U.S. manufacturing, the Company manufactures products in its Asian facilities to support local and U.S. based customers. The Company conducts its operating activities primarily through its wholly owned subsidiaries: Ultra Clean Technology Systems and Service, Inc., AIT LLC, Ultra Clean Technology (Shanghai) Co., Ltd., Ultra Clean Micro-Electronics Equipment (Shanghai) Co., Ltd. and Ultra Clean Asia Pacific, Pte Ltd. (Singapore). The Company s international sales represented 29.6%, 28.5% and 22.2% of sales for fiscal years 2014, 2013 and 2012, respectively. See Note 10 to the Notes to Consolidated Financial Statements for further information about the Company s geographic areas.

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.

In July 2012, the Company completed its acquisition of AIT. Beginning in the third quarter of fiscal 2012, the acquired business is included in the Company s consolidated results of operations.

Foreign Currency Translation The Company has reviewed its non-U.S. subsidiaries (of which all of its non-U.S. asset base resides in Asia) that operate in a local currency environment to determine their functional

Ultra Clean Holdings, Inc.

Notes to Consolidated Financial Statements (Continued)

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

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.

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

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

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

	Fiscal Year Ended		
	2014	**2013**	**2012**
Lam Research Corporation (1)	38%	33%	33%
Applied Materials, Inc.	23	35	38
ASM International, Inc.	15	13	
Total	76%	81%	71%

51

Table of Contents

Ultra Clean Holdings, Inc.

Notes to Consolidated Financial Statements (Continued)

(1) In June 2012, Lam Research Corporation (Lam) completed the acquisition of Novellus Systems, Inc. (Novellus), one of the Company s customers. The sales percentages for Lam for 2012 include sales to Novellus.

Three customers accounts receivable balances: Lam Research Corporation, Applied Materials, Inc. and ASM International, Inc., were individually greater than 10% of accounts receivable as of December 26, 2014 and December 27, 2013 and, in the aggregate, represented approximately 74% and 82% of accounts receivable at December 26, 2014 and December 27, 2013, respectively.

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

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

Level 1 Quoted prices in active markets for identical assets or liabilities,

Level 2 Observable inputs other than the Level 1 prices for similar assets or liabilities; quoted prices in active and inactive markets or other inputs that are observable or can be corroborated by observable market data for substantially the full term of assets or liabilities,

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

The Company s only financial asset measured at fair value on a recurring basis is an overnight sweep account invested in money market funds with maturities of less than 90 days from purchase and are thus classified as cash and cash equivalents on the Company s balance sheet. These money market funds had a carrying value and fair value of $14.4 million at December 26, 2014, based on Level 2 inputs. The Company s financial liabilities measured at fair value are related to the Company s credit facility. Specifically, 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 were based on level 2 inputs and fair value was determined using inputs other than quoted prices that are observable, specifically, discounted cash flows of expected payments at current borrowing rates. The Company s carrying value approximates fair value for the Company s long term debt and revolving credit facility.

Financial assets and liabilities measured at fair value as of December 26, 2014 and December 27, 2013 are summarized below (in thousands):

	Quoted Prices in Active Markets for Identical Assets (level 1)	Significant Other Observable Inputs (level 2)	Quoted Prices in Active Markets for Identical Assets (level 1)	Significant Other Observable Inputs (level 2)
	December 26, 2014		December 27, 2013	
Money market fund deposits (1)	$ 14,396	$	$ 13,414	$

(1) Included in cash and cash equivalents on the Consolidated Balance Sheet. The carrying amounts approximate fair value due to the short-term maturities of the cash equivalents.

Table of Contents

Ultra Clean Holdings, Inc.

Notes to Consolidated Financial Statements (Continued)

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 26, 2014 and December 27, 2013, inventory balances were $56.9 million and $63.9 million, respectively, net of reserves of $6.5 million and $6.8 million, respectively. The inventory write-downs are recorded as an inventory valuation allowance established on the basis of obsolete inventory or specific identified inventory in excess of estimated usage. Inventory write-downs were $4.6 million, including $2.6 million of inventory written off as part of the GTAT bankruptcy in the third quarter of 2014, $1.5 million and $1.2 million in the years ended December 26, 2014, December 27, 2013 and December 28, 2012, respectively.

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

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

		Year Ended	
	December 26, 2014	**December 27, 2013**	**December 28, 2012**

Beginning Balance	$ 101	$ 152	$ 350
Additions related to sales	45	48	47
Warranty costs incurred	(37)	(99)	(245)
Ending Balance	$ 109	$ 101	$ 152

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

Table of Contents

Ultra Clean Holdings, Inc.

Notes to Consolidated Financial Statements (Continued)

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.

The determination of the Company s tax provision is subject to judgments and estimates. The Company assumes that it will be able to generate sufficient future income to fully realize the net deferred tax assets. In determining whether the realization of these deferred tax assets may be impaired, the Company makes judgments with respect to whether it is likely to generate sufficient future taxable income to realize these assets. In addition, the calculation of tax liabilities involves significant judgment in estimating the impact of uncertainties in the application of complex tax laws. Resolution of these uncertainties in a manner inconsistent with the Company s expectations could have a material impact on the Company s results of operations and financial position.

The Company performed a twelve quarter analysis of its U.S. cumulative pretax profit position as of December 26, 2014 and, weighing both positive and negative evidence, determined that it is more likely than not that it will have the ability to generate sufficient taxable income over the foreseeable future to realize its U.S. federal deferred tax assets. Therefore, the Company concluded that a valuation allowance on its U.S. federal deferred tax assets was not required.

In the third quarter of 2014, the Company weighed both positive and negative evidence and concluded that a full valuation allowance of $2.8 million on its California and Oregon deferred tax assets was appropriate. Among the negative evidence was the declaration of bankruptcy of a customer during the third quarter of 2014 and its impact on the Company s ability to generate enough future table income in California and Oregon to fully utilize net operating losses carryforwards in those states before they expire.

As of December 26, 2014, the Company also maintained a full valuation allowance of $1.4 million on one of its China subsidiaries as the Company continues to believe it is not more likely than not that the deferred tax assets will be realized. In order to reverse a valuation allowance, accounting principles generally accepted in the United States of America suggest that the Company review the cumulative income/loss in recent years as well as determine the Company s ability to generate sufficient future taxable income to realize the Company s net deferred tax assets. The Company had a total valuation allowance on deferred tax assets in the amount of $4.2 million and $0.7 million as of December 26, 2014 and December 27, 2013, 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.

Table of Contents

Ultra Clean Holdings, Inc.

Notes to Consolidated Financial Statements (Continued)

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

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

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

Net Income 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).

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

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

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

Stock-based compensation

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 $4.4 million and $1.3 million, respectively,

55

Ultra Clean Holdings, Inc.

Notes to Consolidated Financial Statements (Continued)

for fiscal year 2014, $4.7 million and $0.8 million, respectively, for fiscal year 2013 and $5.1 million and $1.2 million, respectively, for fiscal year 2012.

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 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.

Determining Fair Value for stock based compensation

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

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

Expected volatility. The Company estimates the volatility of its common stock at the date of grant based on historical volatility rates of the Company s stock over the expected term.

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

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

Forfeiture rate. 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.

The exercise price of each stock option equals the market price of the Company s stock on the date of grant. There were no employee stock option grants by the Company for years 2014, 2013 and 2012. Generally, options vest over four years and expire no later than ten years from the grant date. During fiscal years 2014, 2013 and 2012, the Company recorded $3.1 million, $3.9 million and $3.9 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 26, 2014, there was $5.2 million, net of forfeitures of $1.2 million, of unrecognized compensation cost related to employee and director stock which is expected to be recognized on a straight-line basis over a weighted average period of approximately 1.6 years, and will be adjusted for subsequent changes in estimated forfeitures and future grants.

56

Table of Contents

Ultra Clean Holdings, Inc.

Notes to Consolidated Financial Statements (Continued)

Total stock-based compensation during the fiscal years 2014, 2013 and 2012, respectively, to various expense categories was as follows (in thousands):

	Year Ended		
	December 26, 2014	December 27, 2013	December 28, 2012
Cost of goods sold (1)	$ 1,195	$ 1,197	$ 1,263
Sales and marketing	428	474	475
Research and development	156	290	339
General and administrative	2,621	2,724	2,992
	4,400	4,685	5,069
Income tax benefit	(1,342)	(810)	(1,171)
Net stock-based compensation expense	$ 3,058	$ 3,875	$ 3,898

(1) Stock-based compensation expenses capitalized in inventory for fiscal years 2014, 2013 and 2012 were considered immaterial. At the end of fiscal 2012, the Company began including stock compensation as a component of the absorption calculation for inventory.

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 4 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 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.

Table of Contents

Ultra Clean Holdings, Inc.

Notes to Consolidated Financial Statements (Continued)

Long-lived Assets

The Company evaluates long-lived assets for impairment whenever events or changes in circumstances indicate the carrying value of an asset group may not be recoverable. The Company assesses the fair value of the assets based on the amount of the undiscounted future cash flows that the assets are expected to generate and recognizes an impairment loss when estimated undiscounted future cash 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 2014, 2013 and 2012, the Company assessed the useful lives of its long-lived assets, including property, plant and equipment as well as its intangible assets and concluded that no impairment was required.

Recently Issued Accounting Standards

In May 2014, the FASB issued Accounting Standards Update No. 2014-09 (ASU 2014-09) Revenue from Contracts with Customers. ASU 2014-09 amends the revenue recognition requirements in Revenue Recognition (Topic 605) , and requires entities to recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services. ASU 2014-09 is effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. Early adoption is not permitted. The amendments may be applied retrospectively to each prior period presented or retrospectively with the cumulative effect recognized as of the date of initial application. The Company is currently in the process of evaluating the impact of the adoption of ASU 2014-09 on its consolidated financial statements.

2. Balance Sheet Information

Inventory consisted of the following (in thousands):

	December 26, 2014	December 27, 2013
Raw materials	$ 45,294	$ 49,515
Work in process	14,103	19,437
Finished goods	3,922	1,815
	63,319	70,767
Reserve for excess and obsolete	(6,469)	(6,825)

Total	$	56,850	$	63,942

Table of Contents

Ultra Clean Holdings, Inc.

Notes to Consolidated Financial Statements (Continued)

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

	December 26, 2014	December 27, 2013
Computer equipment and software	$ 9,299	$ 8,280
Furniture and fixtures	2,582	2,411
Machinery and equipment	10,774	9,249
Leasehold improvements	12,847	10,583
	35,502	30,523
Accumulated depreciation	(24,661)	(21,989)
Total	$ 10,841	$ 8,534

3. Acquisitions

On July 3, 2012, the Company completed the acquisition of American Integration Technologies LLC (AIT), a supplier of critical subsystems to the semiconductor capital equipment, medical, energy, industrial and aerospace industries, for approximately $75.3 million in cash and 4.5 million shares of newly issued common stock valued at $29.6 million for a total purchase price of $104.9 million. The acquisition served to increase the Company s competitive position and market share, as it resulted in an expansion and diversification of the Company s customer base and product and service portfolio. By acquiring AIT s complementary product and service portfolio and well established customers, the Company was able to immediately go to market with a more complete and integrated solution. The Company financed the cash portion of the merger, and repaid existing indebtedness, by borrowing a total of $79.8 million under a senior secured credit facility, of which $40.0 million represents borrowings under a term loan and $39.8 million represents borrowings under a revolving credit facility. See further discussion of the borrowing arrangements in Note 5 to the Notes to Consolidated Financial Statements.

The Company allocated the purchase price of AIT to tangible assets, liabilities and identifiable intangible assets acquired, based on their estimated fair values. The excess of purchase price over the aggregate fair values was recorded as goodwill. Goodwill associated with the acquisition is primarily attributable to the expected synergies and other benefits that the Company believes will result from combining operations of the Company and AIT. Although goodwill is not amortized for financial accounting purposes, it is amortized for tax purposes over fifteen years.

The results of operations of AIT are included in the Company s consolidated results of operations beginning in the third quarter of fiscal 2012. For the six months ended December 28, 2012, net sales of approximately $63.8 million and net income of approximately $6.8 million attributable to AIT were

included in the consolidated results of operations.

Table of Contents

Ultra Clean Holdings, Inc.

Notes to Consolidated Financial Statements (Continued)

The following unaudited pro forma consolidated results for 2012 combine the historical results of the Company for fiscal year 2012 along with the historical results of AIT during 2012 as if AIT was acquired on December 31, 2011:

	2012 (In thousands, except per share amounts)
Net sales	$ 470,275
Net income	$ 9,305
Basic earnings per share	$ 0.34
Diluted earnings per share	$ 0.33

The unaudited pro forma results above include adjustments related to the purchase price allocation and financing of the acquisition, primarily to increase amortization for the identifiable intangible assets, to increase interest expense for the additional debt incurred to complete the acquisition, to reflect the related income tax effect and to adjust weighted shares issued as part of the acquisition. The pro forma results for the year ended December 30, 2011 include acquisition costs of $2.4 million which are not expected to occur in future quarters. The unaudited pro forma condensed combined financial information was prepared by management for illustrative purposes only and are not necessarily indicative of the consolidated financial position or results of operations in future periods or the results that actually would have been realized had UCT and AIT been a combined company during the specified periods. The unaudited pro forma financial information does not reflect any operating efficiencies and/or cost savings that the Company may achieve with respect to the combined companies, or any liabilities that may result from integration activities.

In November 2014, the Company launched its 3D printing business through a $40,000 acquisition of a privately held company, Prototype Asia, to develop additive manufacturing capability for the Company s customer base. This acquisition enables the Company to produce molds and fixtures for quick-turn production and to provide complex parts that cannot otherwise be manufactured. The proforma effects of this acquisition would not be material to the Company s results of operations for the year ended December 26, 2014 and therefor is not presented.

4. Goodwill and Purchased Intangible Assets

The Company s methodology for allocating the purchase price relating to purchase acquisitions is determined through established and generally accepted valuation techniques. Goodwill is measured as the excess of the cost of the acquisition over the sum of the amounts assigned to tangible and identifiable intangible assets acquired less liabilities assumed. Goodwill and purchased intangible assets with indefinite useful lives are not amortized, but are reviewed for impairment at least annually and

whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. The process of evaluating the potential impairment of goodwill and intangible assets requires significant judgment. The Company regularly monitors current business conditions and other factors including, but not limited to, adverse industry or economic trends and lower projections of profitability that may impact future operating results.

As part of the Company s annual testing of goodwill impairment, in the fourth quarter of fiscal 2014 the Company performed the two-step impairment test of AIT s two reporting units for potential impairment. The Company utilized the discounted cash flow method of the income approach to estimate the fair values of each of the reporting units. The estimates used in the impairment testing were consistent with the discrete forecasts that the Company uses to manage its business, and, additionally, considered the developments that occurred during

Table of Contents

Ultra Clean Holdings, Inc.

Notes to Consolidated Financial Statements (Continued)

the eighteen months since the date of the acquisition. Under the discounted cash flow method, cash flows beyond the discrete forecasts were estimated using a terminal growth rate of 4.0%, which is considered to be the long-term earnings growth rate specific to the Company and to AIT s two reporting units. The estimated future cash flows were discounted to present value using a discount rate of 15% that was the value-weighted average of the reporting unit s estimated cost of equity and debt derived using both known and estimated market metrics, and was adjusted to reflect risk factors that considered both the timing and risks associated with the estimated cash flows. The tax rate used in the discounted cash flow method reflected the international structure currently in place, which is consistent with the market participant perspective. The Company then allocated the fair values of the reporting units to the assets and liabilities of each of the reporting units. Based on the Company s analyses, the Company concluded that the fair value of the reporting units was greater than their carrying amounts, including goodwill. The estimated fair value for AIT as of December 26, 2014, was $104.3 million, a slight decrease of $0.6 million, or 0.6%, over the estimated fair value of $104.9 million of AIT as of the date of the acquisition. Goodwill allocated to AIT s reporting unit A was $27.6 million. The percentage of fair value over the carrying value of AIT s reporting unit A was 12.0% as of December 26, 2014. Goodwill allocated to AIT s reporting unit B was $28.3 million and the percentage of fair value over the carrying value of reporting unit B was 33.9% as of December 26, 2014. As a result, the Company determined that there was no impairment of goodwill.

Details of aggregate goodwill of the Company from inception through December 26, 2014 and December 27, 2013 are as follows (in thousands):

	Gross Amount	Accumulated Impairment*	Net Carrying Amount
Year Ended December 26, 2014			
Goodwill	$ 89,961	$ (34,043)	$ 55,918
Year Ended December 27, 2013			
Goodwill	$ 89,961	$ (34,043)	$ 55,918

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

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

	December 26, 2014			December 27, 2013		
	Goodwill	Intangible Assets	Total	Goodwill	Intangible Assets	Total
Carrying amount	$ 55,918	$ 16,824	$ 72,742	$ 55,918	$ 21,708	$ 77,626

During the quarter ended June 28, 2013, the Company completed the purchase price allocation for the acquisition of AIT on July 2, 2012. During the six months ended June 28, 2013, the Company reduced its goodwill balance by $0.7 million due to a change in the provisional measurement of acquired inventory and sales and use tax balances.

Purchased Intangible Assets

Intangible assets are generally recorded in connection with a business acquisition. The value assigned to the intangible assets purchased as part of the acquisition of AIT was based on estimates and judgments regarding expectations for the success and life cycle of intellectual property/know-how acquired, tradename recognition and developed customer relationships. The Company evaluates the useful lives of its intangible assets each

Table of Contents

Ultra Clean Holdings, Inc.

Notes to Consolidated Financial Statements (Continued)

reporting period to determine whether events and circumstances require revising the remaining period of amortization. In addition, the Company reviews indefinite lived intangible assets for impairment when events or changes in circumstances indicate their carrying value may not be recoverable and tests definite lived intangible assets annually for impairment. Management considers such indicators as significant differences in actual product acceptance from the estimates, changes in the competitive and economic environment, technological advances, and changes in cost structure.

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

	As of December 26, 2014			As of December 27, 2013			
	Gross Carrying Amount	Accumulated Amortization	Carrying Value	Gross Carrying Amount	Accumulated Amortization	Carrying Value	Useful Life (in years)
Customer relationships	$ 19,000	$ (13,011)	$ 5,989	$ 19,000	$ (8,764)	$ 10,236	7
Tradename (AIT)	1,900	(1,081)	819	1,900	(672)	1,228	6
Intellectual property	1,600	(571)	1,029	1,600	(343)	1,257	7
Tradenames (UCT)	8,987		8,987	8,987		8,987	*
	$ 31,487	$ (14,663)	$ 16,824	$ 31,487	$ (9,779)	$ 21,708	

The Company amortizes its tradename and customer relationships intangible assets using an accelerated method over the estimated economic life of the assets, ranging from 5 to 7 years. The Company amortizes its intellectual property/know-how intangible asset on a straight-line basis with an estimated economic life of seven years. Amortization expense was approximately $4.9 million for the year ended December 26, 2014, $6.0 million for the year ended December 27, 2013 and $3.8 for the year ended December 28, 2012.

As of December 26, 2014, future estimated amortization expense is expected to be as follows:

	Amortization Expense (in thousands)
2015	$ 2,813
2016	2,293
2017	1,386
2018	848
2019	497

Total	$	7,837

In addition to the AIT tradename intangible of $1.9 million, the Company is also carrying a UCT trade-name intangible asset of $9.0 million as a result of a previous acquisition. The Company concluded that the UCT trade-name intangible asset life is indefinite and is therefore not amortized. The Company tested the UCT trade-name for impairment as of December 26, 2014, using the applied relief-from-royalty method under the income approach and concluded that the trade-name was not impaired.

5. Borrowing Arrangements

As of December 26, 2014, the Company had borrowing arrangements with Silicon Valley Bank under a Loan and Security Agreement (the Loan Agreement) which included a $40.0 million revolving credit facility (Revolver), maturing on July 3, 2016, and a $40.0 million term loan (Term Loan), maturing on July 3, 2016.

Table of Contents

Ultra Clean Holdings, Inc.

Notes to Consolidated Financial Statements (Continued)

The aggregate amount of the Revolver was secured by substantially all of the Company s assets. As of December 26, 2014, the outstanding balances of the Term Loan and Revolver were $17.5 million and $31.3 million, respectively.

The interest rate on the Revolver during the twelve months ended December 26, 2014 was 3.75%. Pursuant to the Loan Agreement, the Term Loan bears interest per annum at a variable rate equal to the greater of prime rate, as defined per the Loan Agreement, plus a margin of 75 basis points. During the twelve months ended and as of December 26, 2014, the interest rate on the outstanding Term Loan was 3.75%. The Loan Agreement contains a number of financial and reporting covenants. The Company was in compliance with all of such covenants as of December 26, 2014.

In February 2015, the Company entered into a new credit agreement (the Credit Agreement) by and among the Company, certain of its subsidiaries, East West Bank and Citi National Bank (collectively, the Lenders). The Credit Agreement provides for a term loan in an aggregate principal amount of $40.0 million (the New Term Loan) and a revolving credit facility in an aggregate principal amount of $40.0 million (the New Revolving Credit Facility), a letter of credit facility in the aggregate availability amount of $20.0 million (as a sublimit of such New Revolving Credit Facility) (the L/C Facility) and a swingline sub-facility in the aggregate availability amount of $5.0 million (as a sublimit of the New Revolving Credit Facility) (together with the Term Loan, the Revolving Credit Facility and the L/C Facility, the Senior Secured Credit Facility). On February 2, 2015, the Company borrowed an aggregate of $40.0 million under the New Term Loan and approximately $6.5 million under the New 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 and, as a result, the outstanding balance of the revolver of $31.3 million was classified as long-term debt as of December 26, 2014 in accordance with the terms of the new debt agreement. In addition, we will expense the unamortized debt issuance costs of approximately $0.7 million in the first quarter of 2015. On February 5, 2015, in connection with the acquisition of Marchi Thermal Systems, Inc. (Marchi), the Company borrowed $29.7 million under the New Revolving Credit Facility. The borrowed funds were used to finance the acquisition.

The New Term Loan must be repaid in consecutive quarterly installments of $2.5 million, with the first payment due on March 31, 2015, and with the balance of the outstanding principal amount of the New Term Loan due at the final maturity, which is February 2, 2019. The New Revolving Credit Facility is available for the four-year period beginning on February 2, 2015. The Credit Agreement includes customary representations, warranties, covenants and events of default. The Company and certain of its subsidiaries have agreed to secure all of their obligations under the Credit Agreement by granting a first priority lien in substantially all of their respective personal property assets (subject to certain exceptions and limitations).

At the Company s option, borrowings under the New Term Loan and New Revolving Credit Facility (subject to certain limitations) bear interest at either a base rate or at the London Interbank Offered Rate (LIBOR) (with the LIBOR being adjusted for certain Eurocurrency reserve requirements, if any, as

described in the Credit Agreement), plus, in each case, an applicable margin based on 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 Company expects, however, that the effective interest rate will be higher due to the incurrence of certain loan-related costs that will be treated as discount on the debt and amortized over the life of the 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

Table of Contents

Ultra Clean Holdings, Inc.

Notes to Consolidated Financial Statements (Continued)

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.

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.

6. Income Taxes

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

	Year Ended		
	December 26, 2014	December 27, 2013	December 28, 2012
U.S. operations	$ (452)	$ (906)	$ (5,546)
Foreign operations	16,782	13,505	12,243
Total pretax income	$ 16,330	$ 12,599	$ 6,697

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

	Year Ended		
	December 26, 2014	December 27, 2013	December 28, 2012
Current:			
Federal	$ (451)	$ 201	$ 537
State	118	89	139
Foreign	2,839	1,675	3,608
Total current	2,506	1,965	4,284
Deferred:			
Federal	(404)	(252)	(2,141)
State	2,722	28	(418)
Foreign	149	434	(181)

Total deferred	2,467	210	(2,740)
Total provision	$ 4,973	$ 2,175	$ 1,544

64

Table of Contents

Ultra Clean Holdings, Inc.

Notes to Consolidated Financial Statements (Continued)

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

	Year Ended	
	December 26 2014	**December 27 2013**
Net current deferred tax asset:		
Inventory valuation and basis difference	$ 3,243	$ 2,601
Other accrued expenses	2,324	2,153
State taxes	42	(198)
	5,609	4,556
Valuation allowance	(1,582)	(85)
Net current deferred tax asset	4,027	4,471
Net non-current deferred tax asset:		
Deferred rent	15	20
Other accrued expenses	2,622	3,085
Depreciation	1,465	1,491
Net operating losses	1,934	2,029
State taxes		(715)
	6,036	5,910
Valuation allowance	(2,590)	(569)
Net non-current deferred tax asset	3,446	5,341
Total deferred tax asset	7,473	9,812
Current deferred tax liability:		
Undistributed earnings	(526)	(400)
Net deferred tax assets	$ 6,947	$ 9,412

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

	Year Ended	
December 26, 2014	**December 27, 2013**	**December 28, 2012**

Federal income tax provision at statutory rate	34.0%	34.0%	34.0%
State income taxes, net of federal benefit	0.2%	0.6%	(2.8)%
Effect of foreign operations	(19.8)%	(18.7)%	(15.8)%
Valuation allowance	11.3%	(1.6)%	6.1%
Other	4.8%	3.0%	1.6%
Effective Tax Rate	30.5%	17.3%	23.1%

The provision for the year ended December 26, 2014, includes a charge of $2.8 million and $0.7 million related to the valuation allowance on deferred tax assets for California and Oregon and one of the Company s subsidiaries in China, respectively, as the Company believes it is more likely than not that these deferred tax assets will not be realized. The provision for the year ended December 27, 2013, includes a decrease of $0.2

million to the valuation allowance on the deferred tax assets of one of its China subsidiaries as a result of a decrease in deferred tax assets for which there is a full valuation allowance. The provision for the year ended December 28, 2012, includes an increase of $0.4 million to the valuation allowance on the deferred tax assets of

Table of Contents

Ultra Clean Holdings, Inc.

Notes to Consolidated Financial Statements (Continued)

one of its China subsidiaries as a result of an increase in deferred tax assets for which there is a full valuation allowance.

The Company earns a significant amount of its operating income outside the United States, which is deemed to be indefinitely reinvested in foreign jurisdictions. As a result, most of the Company s cash and cash equivalents is held by foreign subsidiaries. The Company currently does not intend nor foresee a need to repatriate these funds to the U.S. The Company expects existing 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 at least the next 12 months and thereafter 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 elect to repatriate future earnings from foreign jurisdictions 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 2014, the Company determined that a portion of the current year earnings of one 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. If the Company changes its intent to reinvest its undistributed foreign earnings indefinitely or if a greater amount of undistributed earnings are needed than the previous anticipated remaining unremitted foreign earnings, the Company could be required to accrue or pay U.S. taxes on some or all of these undistributed earnings. As of December 26, 2014, the Company had undistributed earnings of foreign subsidiaries that are indefinitely invested outside of the U.S. of approximately $57.6 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 28, 2012	$ 109
Increases related to prior year tax positions	
Increases related to current year tax positions	79
Releases due to settlements	(23)
Balance as of December 27, 2013	165
Increases related to prior year tax positions	
Increases related to current year tax positions	205
Expiration of the statute of limitations for the assessment of taxes	(14)

Balance as of December 26, 2014	$ 356

The Company s gross liability for unrecognized tax benefits as of December 26, 2014 and December 27, 2013 was $0.4 million and $0.2 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 26, 2014, December 27, 2013 and December 28, 2012 was considered to be diminimus. 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.

Table of Contents

Ultra Clean Holdings, Inc.

Notes to Consolidated Financial Statements (Continued)

Tax attributes related to equity award windfall deductions are not recorded until they result in a reduction of cash tax payable. As of December 26, 2014, the benefit of the federal net operating losses from windfall deductions were excluded from the deferred tax asset balance as of December 26, 2014. As of December 26, 2014, the benefit of federal and California net operating loss deductions of $1.3 and $0.2 million, respectively, will be recorded to additional paid-in capital when it reduces cash taxes payable.

The Company files income tax returns in the U.S. federal jurisdiction, various states and foreign jurisdictions. The Company s 2011 through 2013 federal income tax returns are open to audit through the statute of limitations by the Internal Revenue Service. The Company s 2010 through 2013 state income tax returns are open to audit by the California Franchise Tax Board. The statute of limitations remains open back to 2008 for California and Oregon to the extent of the unutilized net operating losses. The Company is also subject to examination in various other jurisdictions for various periods.

The Company is currently experiencing a zero rate tax holiday related to its Singapore subsidiary that will expire for tax years beginning January 2016. This tax rate is subject to achieving certain commitments agreed to with the Economic Development Board of Singapore including investment and employment thresholds. The Company s Singapore subsidiary recorded a net profit of $7.1 million for the year ended December 26, 2014.

7. Stockholders Equity

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

8. Employee Benefit Plans

Stock Options On February 20, 2003, the Company adopted the 2003 Stock Incentive Plan (the 2003 Incentive Plan) which was subsequently amended and restated. The Company has reserved 4,515,239 shares of its common stock for issuance under the 2003 Incentive Plan. 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 26, 2014, 2,110,644 shares were available for future grants under the 2003 Incentive Plan.

67

Table of Contents

Ultra Clean Holdings, Inc.

Notes to Consolidated Financial Statements (Continued)

Option activity under the 2003 Incentive Plan is as follows:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value (in thousands)
Outstanding, December 30, 2011	1,654,691	$ 6.54	5.02	$ 2,776
Exercised	(127,904)	1.28		
Cancelled	(12,674)	7.55		
Outstanding, December 28, 2012	1,514,113	$ 6.98	4.02	$ 1,445
Exercised	(266,296)	2.28		
Cancelled	(38,698)	11.76		
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
Options exercisable and expected to vest, December 26, 2014	853,551	$ 8.87	1.35	$ 1,798

The following table summarizes information with respect to options outstanding and exercisable at December 26, 2014:

Range of Exercise Price	Shares Outstanding	Weighted Average Remaining Average Life (Years)	Weighted Average Exercise Price	Shares Exercisable	Weighted Average Exercise Price
$1.17 3.96	122,025	4.45	$ 3.46	122,025	$ 3.46
$6.14 6.55	337,157	0.37	6.55	337,157	6.55
$6.76 8.61	117,500	1.35	8.44	117,500	8.44
$8.94 14.08	59,594	1.85	12.01	59,594	12.01
$14.31 14.99	217,275	2.32	14.89	217,275	14.89
Grand Total	853,551	1.35	$ 8.87	853,551	$ 8.87

For the fiscal years 2014, 2013 and 2012, the intrinsic value of the Company s exercised stock options was $1.8 million, $1.6 million and $0.7 million respectively. For the fiscal years 2014, 2013 and 2012, the Company s vested share recognized expense was zero, $0.3 million and $0.2 million, respectively. There was no stock-based compensation expense for fiscal year 2014 attributable to stock options as all outstanding options were fully vested at the beginning of the fiscal year.

Restricted Stock Units and Restricted Stock Awards In fiscal years 2014, 2013 and 2012, the Company granted 47,000, 30,000 and 30,000 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 26, 2014, 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

Table of Contents

Ultra Clean Holdings, Inc.

Notes to Consolidated Financial Statements (Continued)

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 26, 2014, the Company approved and granted 578,650 RSU s to employees with a weighted average grant date fair value of $11.38 per share and 160,625 PSUs with a weighted average grant date fair value of $13.33 per share. Nine percent of the PSUs granted in fiscal 2014 were cancelled as some of the performance criteria for vesting was not met. As of December 26, 2014, $5.2 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 1.6 years. The unvested amount is subject to forfeiture, until fully vested. At December 26, 2014, 1,078,279 shares were subject to forfeiture.

The following table summarizes the Company s restricted stock unit and restricted stock award activity thru the year ended December 26, 2014:

	Number of Shares	Aggregate Intrinsic Value (in thousands)
Unvested restricted stock units and restricted stock awards at December 28, 2012	1,312,706	$ 6,143
Granted	794,650	
Vested	(590,104)	
Forfeited	(260,322)	
Unvested restricted stock units and restricted stock awards at December 27, 2013	1,256,930	$ 12,632
Granted	786,275	
Vested	(577,528)	
Forfeited	(387,398)	
Unvested restricted stock units and restricted stock awards at December 26, 2014	1,078,279	$ 9,673
Vested and expected to vest restricted stock units and restricted stock awards	939,341	$ 8,370

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 22,971 shares issued under the ESPP during the year ended December 26, 2014.

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 $17,500. The Company may make matching contributions of up to 3% of employee contributions based upon eligibility. The Company made approximately $0.9 million, $0.7 million, and $0.7 million discretionary employer contributions to the 401(k) Plan in the years ended December 26, 2014, December 27, 2013 and December 28, 2012, respectively.

Table of Contents

Ultra Clean Holdings, Inc.

Notes to Consolidated Financial Statements (Continued)

9. Net Income Per Share

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

	Year Ended		
	December 26, 2014	**December 27, 2013**	**December 28, 2012**
Numerator:			
Net income	$ 11,357	$ 10,424	$ 5,153
Denominator:			
Shares used in computation basic:			
Weighted average common shares outstanding	29,301	28,346	25,698
Shares used in computation diluted:			
Weighted average common shares outstanding	29,301	28,346	25,698
Dilutive effect of common shares outstanding subject to repurchase	396	456	244
Dilutive effect of options outstanding	239	235	319
Shares used in computing diluted net income per share	29,936	29,037	26,261
Net income per share basic	$ 0.39	$ 0.37	$ 0.20
Net income per share diluted	$ 0.38	$ 0.36	$ 0.20

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 26, 2014	**December 27, 2013**	**December 28, 2012**
Outstanding options	266	1,209	1,514

10. Segment Information

The Company operates in one reportable segment and is engaged in the development, manufacture and supply of critical subsystems for the semiconductor capital equipment, consumer, medical, energy,

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

70

Table of Contents

Ultra Clean Holdings, Inc.

Notes to Consolidated Financial Statements (Continued)

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

	Year Ended		
Sales	**December 26, 2014**	**December 27, 2013**	**December 28, 2012**
United States	$ 372,200	$ 331,351	$ 313,758
China	64,376	39,044	24,664
Singapore	55,491	63,817	62,143
Others	21,890	9,810	2,865
Total	$ 513,957	$ 444,022	$ 403,430

At December 26, 2014 and December 27, 2013, approximately $5.8 million and $4.6 million, respectively, of the Company s long-lived assets were located in China and Singapore, and the remaining balances were located in the United States.

11. Commitments and Contingencies

The Company had commitments to purchase inventory totaling approximately $31.2 million at December 26, 2014.

The Company also leases properties domestically in Hayward and Fremont, California, Austin, Texas, Pflugerville, Texas, Chandler, Arizona, and South San Francisco California and internationally in China, Singapore and the Philippines. The Company leases certain of its facilities under non-cancelable leases, which expire on various dates through 2022.

As of December 26, 2014, future minimum payments under these operating leases were as follows (in thousands):

Fiscal year	
2015	5,710
2016	5,021
2017	4,388
2018	3,241
2019	2,396
Thereafter	7,422

Total minimum lease payments	$ 28,178

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.

71

Table of Contents

Ultra Clean Holdings, Inc.

Notes to Consolidated Financial Statements (Continued)

12. Subsequent Events

On January 5, 2015, the Company announced that James P. Scholhamer would become the Company s Chief Executive Officer, effective January 19, 2015, succeeding Clarence L. Granger, who retired as the Company s Chief Executive Officer on such date. Mr Granger will remain as non-executive Chairman of the Board of Directors. Mr. Scholhamer also joined the Company s Board of Directors, effective as of his first day of employment with the Company.

In February 2015, the Company completed the acquisition of substantially all of the assets and certain liabilities of Marchi, a designer and manufacturer of specialty thermocouples, heaters and temperature controllers, for approximately $30.0 million in cash and 1,437,500 shares of newly issued common stock for a total purchase price of approximately $44.0 million. In addition, the Company incurred approximately $0.5 million of costs related to the acquisition. The Company s primary reason for this acquisition is to expand its capabilities with its existing customers and bring the Company closer to 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 the new Credit Agreement. Following the acquisition of Marchi, the Company s cash totaled approximately $77.4 million and total debt was approximately $76.2 million. See further discussion of the new borrowing arrangements in Note 5 to the Notes to Consolidated Financial Statements. Due to the limited time since the acquisition date and limitations on access to Marchi s information prior to the acquisition date, the initial accounting for the business combination is incomplete at this time. As a result, the Company is unable to provide amounts recognized as of the acquisition date for major classes of assets and liabilities acquired and resulting from the transaction, including the information required for indemnification assets, contingencies, non-controlling interests and goodwill. Also, because the initial accounting for the transaction is incomplete, the Company is unable to provide the supplemental pro forma revenue and earnings of the combined entity. The Company will include this information in its Quarterly Report on Form 10-Q for the three months ended March 27, 2015.

Table of Contents

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 26, 2014. 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 2014 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 2014.

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 26, 2014. 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 26, 2014.

The effectiveness of our internal control over financial reporting as of December 26, 2014 has been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in their

report which appears in this Form 10-K.

Table of Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of

Ultra Clean Holdings, Inc.

Hayward, California

We have audited the internal control over financial reporting of Ultra Clean Holdings, Inc. and subsidiaries (the Company) as of December 26, 2014, 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 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. Our responsibility is to express an opinion on the Company s internal control over financial reporting based on our audit.

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

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

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

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 26, 2014, based on the criteria established in *Internal Control Integrated Framework (2013*) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the year ended December 26, 2014 of the Company and our report dated March 11, 2015 expressed an unqualified opinion on those consolidated financial statements.

/s/ Deloitte & Touche LLP

San Jose, California

March 11, 2015

Table of Contents

Item 9B. Other Information

None.

Table of Contents

PART III

Pursuant to Paragraph G(3) of the General Instructions to Form 10-K, portions of the information required by Part III of Form 10-K are incorporated by reference from our definitive Proxy Statement to be filed with the SEC in connection with our 2015 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 2015 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 2014 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 2015 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 2015 Annual Meeting of Stockholders.

Table of Contents

The table below summarizes our equity plan information as of December 26, 2014:

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:	2,025,254	$ 8.48	2,110,644
Equity compensation plans not approved by security holders			
Total	2,025,254	$ 8.48	2,110,644

(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.

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 2015 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 2015 Annual Meeting of Stockholders.

Table of Contents

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	45
Consolidated Balance Sheets	46
Consolidated Statements of Operations	47
Consolidated Statements of Stockholders Equity	48
Consolidated Statements of Cash Flows	49
Notes to Consolidated Financial Statements	50

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

Table of Contents

Exhibit Index

Exhibit Number	Description	Form	File No.	Filing Date	Exhibit	Filed Herewith
2.1	Agreement and Plan of Merger, dated as of May 18, 2012, among American Integration Technologies, LLC, AIT Holding Company LLC, Ultra Clean Holdings, Inc. and Element Merger Subsidiary, LLC	8-K	000-50646	May 23, 2012	2.1	
2.2	Asset Purchase Agreement, dated as of February 5, 2015, among Ultra Clean Holdings, Inc., Drake Acquisition Subsidiary, Inc. and Marchi Thermal Systems, Inc.	8-K	000-50646	February 6, 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.	8-K	000-50646	August 3, 2009	3.01	
4.1	Specimen Stock Certificate	S-1/A	333-11904	March 8, 2004	4.1	
10.1	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	
10.2	Form of Stock Option Agreement	S-1/A	333-11904	March 8, 2004	10.6	
10.3	Credit Agreement, dated as of July 3, 2012, among Ultra Clean Holdings, Inc., Ultra Clean Technology Systems and Service, Inc., American Integration Technologies LLC, Ultra Clean Asia Pacific Pte. Ltd., the several lenders from time to time party thereto, Silicon Valley Bank and U.S. Bank National Association	8-K	000-50646	July 10, 2012	10.1	
10.4	Guarantee and Collateral Agreement in favor of Silicon Valley Bank, dated as of July 3, 2012, made by Ultra Clean Holdings, Inc., Ultra Clean	8-K	000-50646	July 10, 2012	10.2	

Technology Systems and Service,
Inc., American Integration
Technologies LLC, Ultra Clean
Asia Pacific Pte. Ltd., UCT Sieger
Engineering LLC, Integrated Flow
Systems LLC and the other
Grantors referred to therein and
from time to time party thereto

Table of Contents

Exhibit Number	Description	Form	File No.	Filing Date	Exhibit	Filed Herewith
10.5	Amendment and Waiver Agreement, dated as of February 15, 2013, among the Company, certain of the Company s subsidiaries, Silicon Valley Bank and the several other banks and financial institutions or entities party thereto	8-K	000-50646	February 22, 2013	10.1	
10.6	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	
10.7	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	
10.8	Employee Stock Purchase Plan (Restated as of October 21, 2004)	10-Q	000-50646	November 8, 2004	10.9.1	
10.9	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	10.1	
10.10	Form of Award Agreement	S-1/A	333-111904	March 8, 2004	10.13	
10.11	Severance Policy for Executive Officers (revised)	10-K	000-50646	March 19, 2009	10.16	
10.12	Form of Restricted Stock Unit Award Agreement	10-K	000-50646	March 12, 2008	10.18	
10.13	Separation Agreement dated as of December 31, 2007 between	10-K	000-50646	March 19, 2009	10.18	

	the Company and Leonid Mezhvinsky				
10.14	Change of control Severance Agreement dated as of July 21, 2009 by and between Ultra Clean Holdings, Inc. and Kevin C. Eichler	10-K	000-50646	March 30, 2010	10.22
10.15	Letter of Agreement between the Company and Lavi Lev dated November 18, 2011	10-Q	000-50646	May 3, 2013	10.1
10.16	Transition Agreement between the Company and Clarence L. Granger, effective as of January 2, 2015	8-K	000-50646	January 5, 2015	99.2

80

Exhibit Number	Description	Form	File No.	Filing Date	Exhibit	Filed Herewith
10.17	Offer Letter between the Company and James P. Scholhamer dated January 3, 2015	8-K	000-50646	January 5, 2015	99.1	
10.18	Change in Control Severance Agreement dated as of January 19, 2015 by and between Ultra Clean Holdings, Inc. and James P. Scholhamer					X
21.1	Subsidiaries of Ultra Clean Holdings, Inc.					X
23.1	Consent of 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

Denotes management contract or compensatory plan.

81

Table of Contents

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 11, 2015

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

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

Signature	Title	Date
/S/ CLARENCE L. GRANGER **Clarence L. Granger**	Chairman	March 11, 2015
/S/ JAMES P. SCHOLHAMER **James P. Scholhamer**	Chief Executive Officer	March 11, 2015
/S/ KEVIN C. EICHLER **Kevin C. Eichler**	Executive Vice President, Chief Financial Officer and Secretary (Principal Financial Officer and Principal Accounting Officer)	March 11, 2015
/S/ LEONID MEZHVINSKY **Leonid Mezhvinsky**	Director	March 11, 2015
/S/ JOHN CHENAULT **John Chenault**	Director	March 11, 2015

/S/ SUSAN H. BILLAT	Director	March 11, 2015
Susan H. Billat		
/S/ DAVID T. IBNALE	Director	March 11, 2015
David T. IbnAle		

Table of Contents

Exhibit Index

Exhibit Number	Description	Previously Filed				Filed Herewith
		Form	File No.	Filing Date	Exhibit	
2.1	Agreement and Plan of Merger, dated as of May 18, 2012, among American Integration Technologies, LLC, AIT Holding Company LLC, Ultra Clean Holdings, Inc. and Element Merger Subsidiary, LLC	8-K	000-50646	May 23, 2012	2.1	
2.2	Asset Purchase Agreement, dated as of February 5, 2015, among Ultra Clean Holdings, Inc., Drake Acquisition Subsidiary, Inc. and Marchi Thermal Systems, Inc.	8-K	000-50646	February 6, 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.	8-K	000-50646	August 3, 2009	3.01	
4.1	Specimen Stock Certificate	S-1/A	333-11904	March 8, 2004	4.1	
10.1	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	
10.2	Form of Stock Option Agreement	S-1/A	333-11904	March 8, 2004	10.6	
10.3	Credit Agreement, dated as of July 3, 2012, among Ultra Clean Holdings, Inc., Ultra Clean Technology Systems and Service, Inc., American Integration Technologies LLC, Ultra Clean Asia Pacific Pte. Ltd., the several lenders from time to time party thereto, Silicon Valley Bank and U.S. Bank National Association	8-K	000-50646	July 10, 2012	10.1	

10.4	Guarantee and Collateral Agreement in favor of Silicon Valley Bank, dated as of July 3, 2012, made by Ultra Clean Holdings, Inc., Ultra Clean Technology Systems and Service, Inc., American Integration Technologies LLC, Ultra Clean Asia Pacific Pte. Ltd., UCT Sieger Engineering LLC, Integrated Flow Systems LLC and the other Grantors referred to therein and from time to time party thereto	8-K	000-50646	July 10, 2012	10.2
10.5	Amendment and Waiver Agreement, dated as of February 15, 2013, among the Company, certain of the Company s subsidiaries, Silicon Valley Bank and the several other banks and financial institutions or entities party thereto	8-K	000-50646	February 22, 2013	10.1

83

Table of Contents

Exhibit Number	Description	Previously Filed Form	File No.	Filing Date	Exhibit	Filed Herewith
10.6	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	
10.7	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	
10.8	Employee Stock Purchase Plan (Restated as of October 21, 2004)	10-Q	000-50646	November 8, 2004	10.9.1	
10.9	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	10.1	
10.10	Form of Award Agreement	S-1/A	333-111904	March 8, 2004	10.13	
10.11	Severance Policy for Executive Officers (revised)	10-K	000-50646	March 19, 2009	10.16	
10.12	Form of Restricted Stock Unit Award Agreement	10-K	000-50646	March 12, 2008	10.18	
10.13	Separation Agreement dated as of December 31, 2007 between the Company and Leonid Mezhvinsky	10-K	000-50646	March 19, 2009	10.18	
10.14	Change of control Severance Agreement dated as of July 21, 2009 by and between Ultra Clean Holdings, Inc. and Kevin C. Eichler	10-K	000-50646	March 30, 2010	10.22	
10.15	Letter of Agreement between the Company and Lavi Lev dated	10-Q	000-50646	May 3, 2013	10.1	

	November 18, 2011					
10.16	Transition Agreement between the Company and Clarence L. Granger, effective as of January 2, 2015	8-K	000-50646	January 5, 2015	99.2	
10.17	Offer Letter between the Company and James P. Scholhamer dated January 3, 2015	8-K	000-50646	January 5, 2015	99.1	
10.18	Change in Control Severance Agreement dated as of January 19, 2015 by and between Ultra Clean Holdings, Inc. and James P. Scholhamer					X

Table of Contents

Exhibit Number	Description	Previously Filed Form	File No.	Filing Date	Exhibit	Filed Herewith
21.1	Subsidiaries of Ultra Clean Holdings, Inc.					X
23.1	Consent of 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					
101.SCH	XBRL Taxonomy Extension Schema Document					
101.CAL	XBRL Taxonomy Calculation Linkbase Document					
101.DEF	XBRL Taxonomy Definition Linkbase Document					
101.LAB	XBRL Taxonomy Label Linkbase Document					
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document					

Denotes management contract or compensatory plan.