

ULTRA CLEAN HOLDINGS INC

Form 10-Q

May 06, 2011

[Table of Contents](#)

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

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

For the quarterly period ended April 1, 2011

or

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

For the transition period from to

Commission file number 000-50646

Ultra Clean Holdings, Inc.

(Exact name of registrant as specified in its charter)

Edgar Filing: ULTRA CLEAN HOLDINGS INC - Form 10-Q

Delaware
(State or other jurisdiction of
incorporation or organization)

61-1430858
(I.R.S. Employer

Identification No.)

26462 Corporate Avenue, Hayward, California
(Address of principal executive offices)

94545
(Zip Code)

(510) 576-4400

Registrant's telephone number, including area code

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

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

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

Large accelerated filer Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

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

Number of shares outstanding of the issuer's common stock as of April 29, 2011: 22,752,368

Table of Contents

ULTRA CLEAN HOLDINGS, INC.

TABLE OF CONTENTS

<u>PART I. FINANCIAL INFORMATION</u>		
ITEM 1.	<u>FINANCIAL STATEMENTS</u>	3
ITEM 2.	<u>MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u>	14
ITEM 3.	<u>QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>	17
ITEM 4.	<u>CONTROLS AND PROCEDURES</u>	17
<u>PART II. OTHER INFORMATION</u>		
ITEM 1.	<u>LEGAL PROCEEDINGS</u>	18
ITEM 1A.	<u>RISK FACTORS</u>	18
ITEM 2.	<u>UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS</u>	24
ITEM 3.	<u>DEFAULTS UPON SENIOR SECURITIES</u>	24
ITEM 4.	<u>(Removed and Reserved)</u>	24
ITEM 5.	<u>OTHER INFORMATION</u>	24
ITEM 6.	<u>EXHIBITS</u>	25
	<u>SIGNATURES</u>	26

Table of Contents**PART I. FINANCIAL INFORMATION****ITEM 1. Financial Statements****ULTRA CLEAN HOLDINGS, INC.****CONDENSED CONSOLIDATED BALANCE SHEETS****(Unaudited; in thousands, except share amounts)**

	April 1, 2011	December 31, 2010
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 35,283	\$ 34,654
Accounts receivable, net of allowance of \$125 and \$125, respectively	58,002	54,589
Inventory	65,152	59,288
Prepaid expenses and other	7,138	5,935
Total current assets	165,575	154,466
Equipment and leasehold improvements, net	9,487	8,971
Purchased intangibles, net	8,987	8,987
Other non-current assets	592	571
Total assets	\$ 184,641	\$ 172,995
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Bank borrowings	\$ 3,762	\$ 4,110
Accounts payable	48,740	45,957
Accrued compensation and related benefits	3,870	3,689
Deferred rent, current portion	801	770
Other current liabilities	5,321	3,195
Total current liabilities	62,494	57,721
Long-term debt	23,538	24,542
Deferred rent and other liabilities	3,022	3,223
Total liabilities	89,054	85,486
Commitments and contingencies (See note 6)		
Stockholders' equity:		
Preferred stock \$0.001 par value, 10,000,000 authorized; none outstanding		
Common stock \$0.001 par value, 90,000,000 authorized; 22,719,643 and 22,299,982 shares issued and outstanding, in 2011 and 2010, respectively	105,054	102,796
Common shares held in treasury, at cost, 601,944 shares in 2011 and 2010	(3,337)	(3,337)
Accumulated deficit	(6,130)	(11,950)
Total stockholders' equity	95,587	87,509

Edgar Filing: ULTRA CLEAN HOLDINGS INC - Form 10-Q

Total liabilities and stockholders' equity	\$ 184,641	\$ 172,995
--	------------	------------

(See accompanying notes to condensed consolidated financial statements)

Table of Contents**ULTRA CLEAN HOLDINGS, INC.****CONDENSED CONSOLIDATED STATEMENTS OF INCOME****(Unaudited; in thousands, except per share data)**

	Three months ended	
	April 1, 2011	April 2, 2010
Sales	\$ 126,719	\$ 98,467
Cost of goods sold	109,167	86,091
Gross profit	17,552	12,376
Operating expenses:		
Research and development	1,605	1,057
Sales and marketing	2,057	1,633
General and administrative	5,703	5,063
Total operating expenses	9,365	7,753
Income from operations	8,187	4,623
Interest and other income (expense), net	(368)	(155)
Income before provision for income taxes	7,819	4,468
Income tax provision	1,999	618
Net income	\$ 5,820	\$ 3,850
Net income per share:		
Basic	\$ 0.26	\$ 0.18
Diluted	\$ 0.25	\$ 0.17
Shares used in computing net income per share:		
Basic	22,468	21,501
Diluted	23,516	22,918

(See accompanying notes to condensed consolidated financial statements)

Table of Contents**ULTRA CLEAN HOLDINGS, INC.****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(Unaudited; in thousands)**

	Three months ended	
	April 1, 2011	April 2, 2010
Cash flows from operating activities:		
Net income	\$ 5,820	\$ 3,850
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	639	525
Excess tax benefit from stock-based compensation	(601)	
Stock-based compensation	1,002	667
Changes in assets and liabilities:		
Accounts receivable, net of allowance	(3,413)	(10,735)
Inventory	(5,864)	(9,718)
Prepaid expenses and other	(1,203)	3,659
Other non-current assets	(21)	13
Accounts payable	2,782	8,154
Accrued compensation and related benefits	181	500
Other liabilities	2,558	1,342
Net cash provided by (used in) operating activities	1,880	(1,743)
Cash flows from investing activities:		
Purchases of equipment and leasehold improvements	(1,154)	(870)
Net cash used in investing activities	(1,154)	(870)
Cash flows from financing activities:		
Proceeds from revolving credit facility		4,000
Principal payments on term debt and capital lease obligations	(1,353)	(498)
Excess tax benefit from stock-based compensation	601	
Proceeds from issuance of common stock	655	158
Net cash provided by (used in) financing activities	(97)	3,660
Net increase in cash	629	1,047
Cash and cash equivalents at beginning of period	34,654	26,697
Cash and cash equivalents at end of period	\$ 35,283	\$ 27,744
Supplemental items:		
Cash paid (refunds) during the period for:		
Income taxes paid	\$ 350	\$ 129
Income tax refunds	\$ (613)	\$ (5,005)
Interest	\$ 335	\$ 196
Non-cash investing activities:		
Fixed asset purchases included in accounts payable	\$ 25	\$ 52

(See accompanying notes to condensed consolidated financial statements)

Table of Contents

ULTRA CLEAN HOLDINGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Organization, Basis of Presentation and Significant Accounting Policies

Organization Ultra Clean Holdings, Inc. (the Company) is a leading developer and supplier of critical subsystems, primarily for the semiconductor capital equipment industry. The Company also leverages the specialized skill sets required to support semiconductor capital equipment to serve the technologically similar markets in the flat panel, medical, energy and research industries, collectively referred to as Other Addressed Industries. The Company develops, designs, prototypes, engineers, manufactures and tests subsystems which are highly specialized and tailored to specific steps in the semiconductor manufacturing process as well as the manufacturing processes in Other Addressed Industries. Revenue is derived from the sale of gas delivery systems and other critical subsystems including chemical mechanical planarization (CMP) subsystems, chemical delivery modules, top-plate assemblies, frame assemblies, process modules and other high level assemblies.

The Company's customers are primarily original equipment manufacturers (OEMs) in industries it supports, providing customers complete subsystem solutions that combine the Company's expertise in design, test, component characterization and highly flexible manufacturing operations with quality control and financial stability. This combination helps the Company to drive down total manufacturing costs, reduce design-to-delivery cycle times and maintain high quality standards for our customers. The Company believes these characteristics, as well as the Company's standing as a leading supplier of gas delivery systems and other critical subsystems, place the Company in a strong position to benefit from the growing demand for subsystem outsourcing.

Basis of Presentation The unaudited condensed consolidated financial statements included in this quarterly report on Form 10-Q include the accounts of the Company and its wholly-owned subsidiaries and have been prepared in accordance with generally accepted accounting principles in the United States of America (GAAP). This financial information reflects all adjustments which are, in the opinion of the Company, normal, recurring and necessary to present fairly the statements of financial position, results of operations and cash flows for the dates and periods presented. The Company's December 31, 2010, balance sheet data was derived from audited financial statements as of that date.

The unaudited condensed consolidated financial statements should be read in conjunction with the Company's consolidated financial statements for the fiscal year ended December 31, 2010, included in its Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 16, 2011. The Company's results of operations for the three months ended April 1, 2011, are not necessarily indicative of the results to be expected for any future periods.

Principles of Consolidation The Company's consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries and all significant intercompany accounts and transactions have been eliminated in consolidation.

Foreign Currency Translation The Company has reviewed its non-U.S. subsidiaries (of which substantially all of its non-U.S. asset base resides in China) that operate in a local currency environment to determine their functional currency by examining how and in what currency each subsidiary generates cash through billings and cash receipts and how and in what currency the subsidiary expends cash through payment of its vendors and payment of its workforce. Also, these subsidiaries individual assets and liabilities that are primarily denominated in the local foreign currency are examined for their impact on the Company's cash flows. All have been determined to have the U.S. dollar as its functional currency. All balance sheet accounts of these local functional currency subsidiaries are translated at the fiscal period-end exchange rate, and income and expense accounts are translated using average rates in effect for the period, except for costs related to those balance sheet items that are translated using historical exchange rates. The resulting translation adjustments are recorded as cumulative translation adjustments, and are a component of accumulated other comprehensive income (loss). Foreign currency transaction gains and losses are recorded in other income (expense), net.

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

Edgar Filing: ULTRA CLEAN HOLDINGS INC - Form 10-Q

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; 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.

Table of Contents**ULTRA CLEAN HOLDINGS, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)**

Significant sales to customers The Company had significant sales to two customers- Applied Materials, Inc. and Lam Research Corporation , each of which accounted for 10% or more of sales for the three months ended April 1, 2011 and April 2, 2010. Sales to each of these customers as a percentage of total sales were as follows:

	Three months ended	
	April 1, 2011	April 2, 2010
Customer A	32.3%	35.3%
Customer B	30.6%	31.5%
Total	62.9%	66.8%

These two customers' accounts receivable balances were individually greater than 10% of accounts receivable and, in aggregate, represented approximately 69% and 63% of accounts receivable as of April 1, 2011 and December 31, 2010, 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 these instruments approximates their fair value because of their short-term nature.

Fiscal Year The Company uses a 52-53 week fiscal year ending on the Friday nearest December 31. All references to quarters refer to fiscal quarters and all references to years refer to fiscal years.

Income Taxes The Company utilizes the asset and liability method of accounting for income taxes, under which deferred taxes are determined based on the temporary differences between the financial statement and tax basis of assets and liabilities using tax rates expected to be in effect during the years in which the basis differences reverse. A valuation allowance is recorded when it is more likely than not that some of the deferred tax assets will not be realized. As of April 1, 2011, the Company maintained a full valuation allowance on its U.S. deferred tax assets and a partial valuation allowance on its non-U.S. deferred tax assets. 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 condensed consolidated statements of operations 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.

The Company files income tax returns in the U.S. federal jurisdiction, various states and foreign jurisdictions. The Company's 2005 and 2006 state income tax returns are currently under examination by the California Franchise Tax Board and the Company's state income tax returns are open to audit under the statute of limitations for the fiscal years 2005 through 2009. The Company is also subject to examination in various other jurisdictions for various periods. The Company's federal returns are still open under the statute of limitations for fiscal years 2004 through 2005.

Table of Contents**ULTRA CLEAN HOLDINGS, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)**

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

	Three months ended	
	April 1, 2011	April 2, 2010
Beginning balance	\$ 204	