AKAMAI TECHNOLOGIES INC
Form 10-Q
May 10, 2006

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

Form 10-Q

(Mark One)

þ	**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934** **For the quarterly period ended March 31, 2006**
	or
o	**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 0-27275
Akamai Technologies, Inc.
(Exact name of registrant as specified in its charter)

Delaware	**04-3432319**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification Number)*

8 Cambridge Center
Cambridge, MA 02142
(617) 444-3000
(Address, Including Zip Code, and Telephone Number, Including Area Code, of Registrant s Principal Executive Offices)

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 (the Exchange Act) 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 þ No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

Large accelerated filer þ Accelerated Filer o Non-accelerated Filer o

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

The number of shares outstanding of the registrant s common stock as of May 5, 2006: 154,512,987 shares.

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PART I. FINANCIAL INFORMATION

Item 1. ***Financial Statements***

AKAMAI TECHNOLOGIES, INC.
UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

	March 31, 2006	December 31, 2005
	(In thousands, except share data)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 65,022	$ 91,792
Marketable securities (including restricted securities of $330 at March 31, 2006 and $730 at December 31, 2005)	219,923	200,616
Accounts receivable, net of reserves of $9,881 at March 31, 2006 and $7,994 at December 31, 2005, respectively	55,798	52,162
Prepaid expenses and other current assets	13,450	10,428
Total current assets	354,193	354,998
Property and equipment, net	54,939	44,885
Marketable securities (including restricted securities of $3,825 at March 31, 2006 and December 31, 2005, respectively)	56,478	21,721
Goodwill	98,347	98,519
Other intangible assets, net	35,971	38,267
Deferred tax assets, net	326,609	328,308
Other assets	4,729	4,801
Total assets	$ 931,266	$ 891,499
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 18,411	$ 16,022
Accrued expenses	42,891	38,449
Deferred revenue	8,820	5,656
Current portion of accrued restructuring	1,533	1,749
Total current liabilities	71,655	61,876
Accrued restructuring, net of current portion	1,505	1,844
Other liabilities	3,100	3,565
1% convertible senior notes	200,000	200,000
Total liabilities	276,260	267,285
Commitments, contingencies and guarantees (Note 15)		
Stockholders equity:		
Preferred stock, $0.01 par value; 5,000,000 shares authorized; 700,000 shares designated as Series A Junior Participating Preferred		

Stock; no shares issued or outstanding at March 31, 2006 and December 31, 2005				
Common stock, $0.01 par value; 700,000,000 shares authorized; 154,245,298 shares issued and outstanding at March 31, 2006; 152,922,092 shares issued and outstanding at December 31, 2005		1,542		1,529
Additional paid-in capital		3,892,680		3,880,985
Deferred stock compensation				(7,537)
Accumulated other comprehensive income, net		524		471
Accumulated deficit		(3,239,740)		(3,251,234)
Total stockholders equity		655,006		624,214
Total liabilities and stockholders equity	$	931,266	$	891,499

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

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AKAMAI TECHNOLOGIES, INC.
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	For the Three Months Ended March 31,	
	2006	**2005**
	(In thousands, except per share data)	
Revenues:		
Services	$ 90,799	$ 59,579
Software and software-related	26	517
Total revenues	90,825	60,096
Costs and operating expenses:		
Cost of revenues	19,316	11,524
Research and development	6,726	3,629
Sales and marketing	26,295	16,745
General and administrative	18,543	11,839
Amortization of other intangible assets	2,296	12
Total costs and operating expenses	73,176	43,749
Income from operations	17,649	16,347
Interest income	3,430	598
Interest expense	(772)	(1,611)
Other income (expense), net	186	(726)
Gain on investments, net	257	
Income before provision for income taxes	20,750	14,608
Provision for income taxes	9,255	529
Net income	$ 11,495	$ 14,079
Net income per weighted average share:		
Basic	$ 0.07	$ 0.11
Diluted	$ 0.07	$ 0.10
Shares used in per weighted average share calculations:		
Basic	153,819	127,051
Diluted	173,811	147,282

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

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AKAMAI TECHNOLOGIES, INC.
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Three Months Ended March 31,	
	2006	2005
	(In thousands)	
Cash flows from operating activities:		
Net income	$ 11,495	$ 14,079
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	8,693	3,866
Amortization of deferred financing costs	210	274
Stock-based compensation	7,087	227
Utilization of tax NOL carryforward	8,764	
Deferred taxes		158
Provision for doubtful accounts	318	413
Excess tax benefits from stock-based compensation	(5,399)	
(Gain)loss on investments, property and equipment and foreign currency, net	(327)	227
Changes in operating assets and liabilities:		
Accounts receivable	(3,403)	(4,761)
Prepaid expenses and other current assets	(3,113)	777
Accounts payable, accrued expenses and other current liabilities	6,840	4,878
Deferred revenue	2,641	281
Accrued restructuring	(554)	(352)
Other non-current assets and liabilities	(91)	(1,365)
Net cash provided by operating activities	33,161	18,702
Cash flows from investing activities:		
Purchases of property and equipment	(13,556)	(7,598)
Capitalization of internal-use software costs	(2,618)	(2,121)
Purchases of available for sale securities	(105,005)	(10,544)
Proceeds from sales and maturities of available for sale securities	50,766	5,203
Decrease in restricted investments held for security deposits	400	
Net cash used in investing activities	(70,013)	(15,060)
Cash flows from financing activities:		
Payments on capital leases		(134)
Excess tax benefits from stock-based compensation	5,399	
Proceeds from the issuance of common stock under stock option plans	4,643	1,643
Net cash provided by financing activities	10,042	1,509
Effects of exchange rate changes on cash and cash equivalents	40	(588)
Net (decrease) increase in cash and cash equivalents	(26,770)	4,563

Cash and cash equivalents at beginning of period		91,792		35,318
Cash and cash equivalents at end of period	$	65,022	$	39,881
Supplemental disclosure of cash flow information:				
Cash paid for interest	$	1	$	1,570
Cash paid for income taxes		264		229
Non-cash investing activities:				
Capitalization of stock-based compensation	$	492	$	

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

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AKAMAI TECHNOLOGIES, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Nature of Business, Basis of Presentation and Principles of Consolidation

Akamai Technologies, Inc. (Akamai or the Company) provides services for accelerating and improving the delivery of content and applications over the Internet. Akamai s globally distributed platform comprises more than 19,000 servers in more than 950 networks in 71 countries. The Company was incorporated in Delaware in 1998 and is headquartered in Cambridge, Massachusetts. Akamai currently operates in one business segment: providing services for accelerating and improving delivery of content and applications over the Internet.

The accompanying interim condensed consolidated financial statements are unaudited and have been prepared in accordance with the Accounting Principles Generally Accepted in the United States of America for interim financial information. The accompanying condensed consolidated financial statements include the accounts of Akamai and its wholly-owned subsidiaries. Intercompany transactions and balances have been eliminated in consolidation. Certain information and footnote disclosures normally included in the Company s annual consolidated financial statements have been condensed or omitted.

The results of operations presented in this Quarterly Report on Form 10-Q are not necessarily indicative of the results that may be expected for future periods. In the opinion of management, these unaudited statements include all adjustments and accruals, consisting only of normal recurring adjustments, that are necessary for a fair statement of the results of all interim periods reported herein. These condensed consolidated financial statements should be read in conjunction with the condensed consolidated financial statements and accompanying notes included in Akamai s Annual Report on Form 10-K for the year ended December 31, 2005.

2. Restricted Marketable Securities

As of March 31, 2006, $4.2 million of the Company s marketable securities were classified as restricted. These securities primarily represent security for irrevocable letters of credit in favor of third-party beneficiaries, mostly related to facility leases. The letters of credit are collateralized by restricted marketable securities, of which $3.8 million are classified as long-term marketable securities and $330,000 are classified as short-term marketable securities on the unaudited condensed consolidated balance sheet as of March 31, 2006. The restrictions on these marketable securities lapse as the Company fulfills its obligations or as such obligations expire as provided by the letters of credit. These restrictions are expected to lapse at various times through May 2011.

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AKAMAI TECHNOLOGIES, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. Accounts Receivable

Net accounts receivable consists of the following (in thousands):

	As of March 31, 2006	As of December 31, 2005
Trade accounts receivable	$ 56,939	$ 51,019
Unbilled accounts	8,740	9,137
Total gross accounts receivable	65,679	60,156
Allowance for doubtful accounts	(2,436)	(2,277)
Reserve for cash basis customers	(2,538)	(2,539)
Reserve for service credits	(4,907)	(3,178)
Total accounts receivable reserves	(9,881)	(7,994)
Total accounts receivable, net	$ 55,798	$ 52,162

4. Accrued Expenses

Accrued expenses consist of the following (in thousands):

	As of March 31, 2006	As of December 31, 2005
Payroll and other related benefits	$ 16,061	$ 14,374
Property, use and other taxes	13,886	13,314
Bandwidth and co-location	10,103	7,781
Legal professional fees	453	679
Interest	583	83
Other	1,805	2,218
Total	$ 42,891	$ 38,449

5. Stock-Based Compensation

Effective January 1, 2006, the Company adopted on a modified prospective basis the provisions of Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards (SFAS) No. 123(R), Share-Based Payment (SFAS No. 123(R)), which requires the measurement and recognition of compensation expense based on estimated fair values for all share-based payment awards made to employees and directors including employee stock options, restricted stock units, deferred stock units and employee stock purchases related to Akamai s 1999 Employee Stock Purchase Plan (the 1999 ESPP). Accordingly, stock-based compensation costs are measured at grant date, based on the fair value of the award, and is recognized as expense over the employee s requisite service period. Additionally, the Company applied the provisions of the SEC s Staff Accounting Bulletin No. 107 on share-based payment to its adoption of SFAS No. 123(R).

Equity Plans

In 1998, the Company s Board of Directors (the Board of Directors) adopted the 1998 Stock Incentive Plan (the 1998 Plan) for the issuance of incentive and nonqualified stock options, restricted stock awards

**AKAMAI TECHNOLOGIES, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS (Continued)**

and other types of equity awards. Options to purchase common stock and other equity awards are granted at the discretion of the Board of Directors or a committee thereof. In October 2005, the Board of Directors delegated to the Company s Chief Executive Officer the authority to grant equity incentive awards to employees of the Company below the level of Vice President subject to certain specified limitations. In December 2001, the Board of Directors adopted the 2001 Stock Incentive Plan (the 2001 Plan) for the issuance of nonqualified stock options, restricted stock and other types of equity awards. The total number of shares of common stock reserved for issuance under the 1998 Plan and the 2001 Plan is 48,255,600 and 5,000,000 shares, respectively. Equity incentive awards may not be issued to the Company s directors or executive officers under the 2001 Plan.

Under the terms of the 1998 Plan, the exercise price of incentive stock options may not be less than 100% (110% in certain cases) of the fair market value of the common stock on the date of grant, as determined by the Board of Directors. Incentive stock options may not be issued under the 2001 Plan. The exercise price of nonqualified stock options issued under the 1998 Plan and the 2001 Plan may be less than the fair market value of the common stock on the date of grant, as determined by the Board of Directors, but in no case may the exercise price be less than the statutory minimum. Stock option vesting is typically four years, and options are granted at the discretion of the Board of Directors. The term of options granted may not exceed ten years, or five years for incentive stock options granted to holders of more than 10% of the Company s voting stock.

The Company has assumed certain stock option plans and the outstanding stock options of companies that it has acquired (Assumed Plans). Stock options under the Assumed Plans have been exchanged for the Company s stock options and adjusted to reflect the appropriate conversion ratio as specified by the applicable acquisition agreement, but are otherwise administered in accordance with the terms of the Assumed Plans. Stock options under the Assumed Plans generally vest over four years and expire ten years from the date of grant. No additional stock options have been or will be granted under the Assumed Plans.

In August 1999, the Board of Directors adopted the 1999 ESPP. The Company reserved 3,100,000 shares of common stock for issuance under the 1999 ESPP. In May 2002, the stockholders of the Company approved an amendment to the 1999 ESPP that allows for an automatic increase in the number of shares of common stock available under the 1999 ESPP each June 1 and December 1 to restore the number of shares available for issuance to 1,500,000 shares, provided that the aggregate number of shares issuable under the 1999 ESPP shall not exceed 20,000,000. In April 2005, the Company s Board of Directors approved amendments to the 1999 ESPP as follows: the duration of the offering periods was decreased from 24 months to six months; the number of times a participant may elect to change his or her percentage was changed from four times to two times; the definition of compensation was amended to clarify that it includes cash bonuses and other cash incentive programs; and a provision was added to clarify that upon termination of an offering period, each eligible participant will be automatically enrolled in the next offering period. These amendments became effective in June 2005. The 1999 ESPP allows participants to purchase shares of common stock at a 15% discount from the fair market value of the stock as determined on specific dates at six-month intervals. During the three-month periods ended March 31, 2006 and 2005, the Company issued no shares under the 1999 ESPP. As of March 31, 2006, $2.2 million had been withheld from employees for future purchases under the 1999 ESPP.

Impact of the adoption of SFAS No. 123(R)

The Company adopted SFAS No. 123(R) using the modified prospective transition method, which requires the application of the accounting standard as of January 1, 2006, the first day of Akamai s fiscal year 2006. Under this transition method, stock-based compensation expense recognized during the quarter ended March 31, 2006 includes: ESPP awards with the offering period commencing on December 1, 2005, based on the grant-date fair value estimated in accordance with the original provisions of SFAS No. 123; stock options

AKAMAI TECHNOLOGIES, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

and deferred stock units granted prior to, but not yet vested as of December 31, 2005, based on the grant-date fair value estimated in accordance with the original provisions of SFAS No. 123; and stock options and restricted stock units granted, subsequent to December 31, 2005, based on the grant-date fair value, in accordance with the provisions of SFAS No. 123(R). Under the modified prospective transition method, results for prior periods are not restated, and accordingly, the results of operations for the three months ended March 31, 2006 and future periods will not be comparable to the Company s historical results.

Akamai has selected the Black-Scholes option pricing model to determine the estimated fair value of stock option awards. The estimated fair value of Akamai s stock-based awards, less expected forfeitures, is amortized over the awards vesting period on a straight-line basis. Deferred compensation related to awards granted prior to January 1, 2006 has been included in additional paid-in capital. SFAS No. 123(R) also changes the reporting of tax-related amounts within the statement of cash flows. The gross amount of windfall tax benefits resulting from stock-based compensation will be reported as cash flows from financing activities.

The effect of recording stock-based compensation in accordance with SFAS No. 123(R) for the three month period ended March 31, 2006 was as follows (in thousands, except per share data):

	For the Three Months Ended March 31, 2006	
Stock-based compensation expense by type of award:		
Stock options	$	5,083
Deferred stock units		242
Restricted stock units		1,758
1999 ESPP		496
Amounts capitalized as internal-use software		(492)
Total stock-based compensation before income taxes		7,087
Less: Income tax benefit		(1,801)
Total stock-based compensation, net of tax	$	5,286
Effect of stock-based compensation on income by line item:		
Cost of revenues	$	273
Research and development expense		1,657
Sales and marketing expense		2,589
General and administrative expense		2,568
Provision for income taxes		(1,801)
Total cost related to stock-based compensation	$	5,286

The fair value of Akamai s stock-option awards granted during the three months ended March 31, 2006 was estimated using the following weighted-average assumptions:

Options

Expected life (years)		3.7
Risk-free interest rate(%)		4.6
Expected Volatility(%)		66.4
Dividend yield(%)		
Weighted average fair value at grant date	$	13.25

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AKAMAI TECHNOLOGIES, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS (Continued)

Expected volatilities are based on the Company s historical volatility and implied volatility from traded options in its stock. The Company uses historical data to estimate the expected term of options granted within the valuation model. The risk-free rate for periods within the expected term of the option is based on the U.S. Treasury yield rate in effect at the time of grant.

As of March 31, 2006, total unrecognized compensation costs for stock options, restricted stock units, deferred stock units and the 1999 ESPP was $87.3 million. This non-cash expense will be recognized through 2009 with a weighted average period of 1.7 years.

As a result of adopting SFAS No. 123(R), the Company s income before taxes and net income for the three months ended March 31, 2006 is $3.7 million and $2.1 million lower, respectively, than if the Company had continued to account for share-based compensation under Accounting Principles Bulletin No. 25, Account for Stock Issued to Employees (APB No. 25). Basic and diluted earnings per share for the three months ended March 31, 2006 would have been $0.09 and $0.08, respectively, if the Company had not adopted SFAS No. 123(R), compared to reported basic and diluted earnings per share of $0.07 and $0.07 each.

Prior to the adoption of SFAS No. 123(R), the Company presented all tax benefits of deductions res"
SIZE="2">11

code of business conduct and ethics that applies to all officers, directors and employees. Our corporate governance guidelines and our code of business conduct and ethics as well as the charters of the Nominating and Corporate Governance Committee, Audit Committee and Compensation Committee are available on our website at http://uct.com/investors/corporate-governance/.

Communicating with our Board of Directors. Any stockholder wishing to communicate with our Board of Directors may send a letter to our Secretary at 26462 Corporate Avenue, Hayward, CA 94545. Communications intended specifically for non-employee directors should be sent to the attention of the chair of the Nominating and Corporate Governance Committee.

Annual Meeting Attendance. Our Board of Directors has adopted a policy that all members should attend each annual meeting of stockholders when practical. Five of our incumbent directors attended the 2015 Annual Meeting of Stockholders.

Risk Oversight

Our Board of Directors plays an active role, as a whole and also at the committee level, in overseeing the management of our risks. Our Board of Directors regularly reviews reports from the management team on areas of material risk to the Company, including operational, financial, legal and strategic risks. Each of the committees of our Board of Directors also oversees the management of company risks that fall within the committee s areas of responsibility. The Audit Committee periodically reviews risks associated with financial reporting and internal controls, as well as risks associated with liquidity, customer credit, inventory reserves and insurance coverage. The Nominating and Corporate Governance Committee assists the Board in overseeing risks associated with board organization, membership, structure and corporate governance. The Compensation Committee assists the Board in reviewing whether any material risks arise from our compensation programs and in overseeing risks associated with succession planning for our executives.

Committees of our Board of Directors

Our Board of Directors has three principal committees. The following describes each committee s current membership, the number of meetings held during 2015 and its mission:

Audit Committee. Among other matters, the Audit Committee is responsible for:

our accounting and financial reporting processes and audits of our financial statements;

the integrity of our financial statements and internal controls;

the qualifications, independence and performance of the our independent auditors (including hiring and replacing our independent auditors as appropriate, reviewing and pre-approving any audit and non-audit services provided by our independent auditors and approving fees related to such services);

the performance of our internal audit function;

the review, approval and oversight of the our Cash and Investment Policy and Financial Risk Management Policy, including oversight over our hedging strategy and the use of swaps and other derivative instruments for hedging risks;

compliance with legal and regulatory requirements;

compliance with our Code of Business Conduct and Ethics(and requests for waivers therefrom); and preparing the audit committee report that SEC rules require to be included in our proxy statement.

A copy of the Audit Committee s charter is available on our website at http://uct.com/investors/corporate-governance/.

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The current members of the Audit Committee are Barbara V. Scherer (chair), Thomas T. Edman and David T. ibnAle. Our Board of Directors has determined that each member of the committee satisfies both the SEC s additional independence requirement for members of audit committees and the other requirements of NASDAQ for members of audit committees. The Board of Directors has also concluded that each member of the Audit Committee qualifies as an audit committee financial expert as defined by SEC rules and has the financial sophistication required by NASDAQ. The Audit Committee met six times in 2015.

Compensation Committee. Among other matters, our Compensation Committee:

- oversees our compensation and benefits policies generally, including the issuance of equity-based compensation;
- evaluates executive officer and other senior executive performance;
- reviews our management succession plan;
- oversees and sets compensation for our executive officers, Board members and other senior executives; and
- reviews and recommends inclusion of the Compensation Discussion and Analysis required to be included in our proxy statement by SEC rules.

A copy of the Compensation Committee s charter is available on our website at http://uct.com/investors/ corporate-governance/. The Compensation Committee s process for deliberations on executive compensation is described below under Compensation Discussion and Analysis.

As part of our oversight of our executive compensation program and in conjunction with the Compensation Committee, we consider the impact of our executive compensation program and the incentives created by different elements of the executive compensation program on our risk profile. In addition, we review all of our compensation policies and procedures, including the incentives that they create and factors that affect the likelihood of excessive risk-taking, to determine whether they present a significant risk to the Company. Based on this review, we have concluded that our compensation policies and procedures are not reasonably likely to have a material adverse effect on the Company.

The current members of the Compensation Committee are David T. ibnAle (chair), Thomas T. Edman and Emily M. Liggett. Our Board of Directors has determined each member of the committee is independent as defined under NASDAQ and SEC rules. The Compensation Committee met six times in 2015.

Nominating and Corporate Governance Committee. Among other matters, our Nominating and Corporate Governance Committee:

- reviews and evaluates the size, composition, function and duties of the Board consistent with its needs;
- establishes criteria for the selection of candidates to the Board and its committees, and identifies individuals qualified to become Board members consistent with such criteria, including the consideration of nominees submitted by shareholders;
- recommends to the Board director nominees for election at our annual or special meetings of stockholders at which directors are to be elected or to fill any vacancies or newly created directorships that may occur between such meetings;

recommends directors for appointment to committees of the Board;

makes recommendations to the Board as to determinations of director independence;

leads the process and assists the Board in evaluating its performance and the performance of its committees;

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conducts executive searches and evaluate and recommend chief executive officer candidates for approval to the Board; and

Periodically reviews and approves our Corporate Governance Guidelines and Code of Business Conduct and Ethics, and oversees compliance with our Corporate Governance Guidelines.

A copy of the Nominating and Corporate Governance Committee s charter is available on our website at http://uct.com/investors/corporate-governance/.

The current members of the Nominating and Corporate Governance Committee are Emily M. Liggett (chair), Thomas T. Edman and Barbara V. Scherer. Our Board of Directors has determined that each member of the Nominating and Corporate Governance Committee is independent as defined under NASDAQ. The Nominating and Corporate Governance Committee met five times in 2015.

Consideration of Director Nominees

Director Qualifications. The Nominating and Corporate Governance Committee of the Board operates pursuant to a written charter and establishes membership criteria for the Board and each committee of the Board and recommends to the Board individuals for membership on the Board and its committees. There is no fixed set of qualifications that must be satisfied before a candidate will be considered. Rather, candidates for director nominees are reviewed in the context of the current composition of our Board of Directors, our operating requirements and the interests of our stockholders. In conducting its assessment, the committee considers issues of judgment, diversity, age, skills, background, experience and such other factors as it deems appropriate given the needs of the Company and our Board of Directors. Although we do not have a formal policy with regard to the consideration of diversity, when identifying and selecting director nominees, the Nominating and Corporate Governance Committee also considers the impact a nominee would have in terms of increasing the diversity of our Board of Directors with respect to professional experience, skills, backgrounds, viewpoints and areas of expertise. The Nominating and Corporate Governance Committee also considers the independence, financial literacy and financial expertise standards required by our committee charters and applicable laws, rules and regulations, and the ability of the candidate to devote the time and attention necessary to serve as a director and a committee member.

Identifying and Evaluating Nominees for Director. In the event that vacancies are anticipated or otherwise arise, the Nominating and Corporate Governance Committee (or, if the Nominating and Corporate Governance Committee is not comprised solely of independent directors, our independent directors) considers various potential candidates for director. Candidates may come to the attention of the Nominating and Corporate Governance Committee (or our independent directors) through current directors, professional search firms engaged by us, stockholders or other persons. Candidates are evaluated at regular or special meetings of the Nominating and Corporate Governance Committee (or our independent directors) and may be considered at any point during the year.

Stockholder Nominees. Candidates for director recommended by stockholders will be considered by the Nominating and Corporate Governance Committee (or our independent directors). Such recommendations should include the candidate s name, home and business contact information, detailed biographical data, relevant qualifications for membership on our Board of Directors, information regarding any relationships between the candidate and our Company within the last three years and a written indication by the recommended candidate of the candidate s willingness to serve on our Board of Directors. Stockholder recommendations, with such accompanying information, should be sent to the attention of the Chair of the Nominating and Corporate Governance Committee at the address listed under Information Concerning Solicitation and Voting Contacting Ultra Clean.

Stockholders also may nominate directors for election at our annual meeting of stockholders by following the provisions set forth in our Amended and Restated Bylaws. The deadline and procedures for stockholder nominations are disclosed elsewhere in this proxy statement under the caption Information Concerning Solicitation and Voting Deadline for Receipt of Stockholder Proposals.

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Director Compensation

For fiscal 2015, each non-employee director was paid a $35,000 annual retainer fee, as well as, if applicable, a $12,000 annual fee for serving on the Audit Committee, a $5,000 annual fee per committee for serving on the Compensation and the Nominating and Corporate Governance Committees, a $20,000 annual fee for serving as chair of the Audit Committee (which includes the fee to serve on the Audit Committee), a $10,000 annual fee for serving as chair of the Compensation or Nominating and Corporate Governance Committees (which includes the fee to serve on each committee) and a $12,000 fee for serving as Chairman of the Board. In fiscal 2015, on the date of our annual meeting of stockholders, each non-employee director was granted a restricted stock award for 8,000 shares of our common stock that fully vest on the earlier of (i) the day before the 2016 Annual Meeting of Stockholders and (ii) June 4, 2016.

The following table sets forth compensation for our non-employee directors for fiscal 2015:

Name	Fees Earned or Paid In Cash ($)	Stock Awards (1) (2) ($)	Total ($)
Thomas T. Edman	45,000	52,000	97,000
Clarence Granger (4)	47,000	52,000	99,000
David ibnAle (3)	62,000	52,000	114,000
Emily M. Liggett	50,000	52,000	102,000
Leonid Mezhvinsky	35,000	52,000	87,000
Barbara Scherer	60,000	52,000	112,000

(1) Amounts shown do not reflect compensation actually received by the directors. The amounts shown are the grant date fair value for restricted stock awards granted in fiscal 2015 computed in accordance with FASB ASC Topic 718 based on the closing price of our common stock on the day preceding the grant date. Pursuant to SEC rules, the amounts shown exclude the impact of estimated forfeitures related to service-based vesting conditions.

(2) Each non-employee director held an aggregate of 8,000 unvested restricted stock awards at December 25, 2015.

(3) At December 25, 2015, Mr. ibnAle held 7,500 outstanding stock options. No stock options were granted to our directors during fiscal 2015.

(4) Mr. Granger was our Chief Executive Officer for part of January 2015. See Summary Compensation Table for amounts he received in his employee role.

Mr. Scholhamer became a member of our Board of Directors in January 2015 and does not receive separate compensation for services as a director. John Chenault resigned from his position on our Board of Directors in July 2015, and Susan H. Billat did not stand for reelection to our Board of Directors at our 2015 Annual Meeting of Stockholders. Neither Mr. Chenault nor Ms. Billat were paid compensation for service on our Board of Directors in fiscal 2015.

Stock Ownership Guidelines; Policy against Hedging Transactions and Pledges

The Board of Directors has adopted stock ownership guidelines for our directors to more closely align the interests of our directors with those of our stockholders. The guidelines provide that each director should hold at least 10,000 shares of our common stock, and that each director be allowed three years from the date such director joined our Board of Directors to accumulate such number of shares of our common stock. All of our directors are currently in compliance with our stock ownership guidelines.

The Company s Insider Trading Policy provides that our securities shall not be made subject to hedge transactions or puts and calls. The Insider Trading Policy further prohibits any pledges of our securities by our directors and executive officers.

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Certain Relationships and Related Party Transactions

Transactions with Directors. The Company leases a facility from an entity controlled by Leonid Mezhvinsky, one of our directors. In the year ended December 25, 2015, we incurred rent and other expenses resulting from the lease of this facility of approximately $280,000.

Related Person Transaction Policy. Our written Related Person Transaction Policy requires our Board of Directors or the Nominating and Corporate Governance Committee to review and approve all related person transactions. Our directors and officers are required to promptly notify our Chief Compliance Officer of any transaction which potentially involves a related person. Our Board of Directors or the Nominating and Corporate Governance Committee then considers all relevant facts and circumstances, including without limitation the commercial reasonableness of the terms of the transaction, the benefit and perceived benefit, or lack thereof, to the Company, opportunity costs of alternate transactions, the materiality and character of the related person s direct or indirect interest, and the actual or apparent conflict of interest of the related person. Our Board of Directors or the Nominating and Corporate Governance Committee will not approve or ratify a related person transaction unless it has determined that, upon consideration of all relevant information, the transaction is in, or not inconsistent with, the best interests of the Company and its stockholders.

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PROPOSAL 2: RATIFICATION OF THE APPOINTMENT OF OUR

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Audit Committee has appointed Moss Adams LLP (Moss Adams) to serve as our independent registered public accounting firm for fiscal 2016. We are asking you to ratify this appointment. Ratification of the appointment of Moss Adams as our independent registered public accounting firm for fiscal 2016 requires the affirmative vote of the holders of a majority of our common stock present in person or represented by proxy at the annual meeting and entitled to vote thereon. Abstentions will have the same effect as negative votes for this proposal. Although ratification is not required for us to retain Moss Adams, in the event of a majority vote against ratification, the Audit Committee may reconsider its selection. Even if the appointment is ratified, the Audit Committee may, in its discretion, direct the appointment of a different independent registered public accounting firm at any time during the year if the Audit Committee determines that such a change would be in the Company s and its stockholders best interests. A representative of Moss Adams is expected to be present at the annual meeting of stockholders, will have the opportunity to make a statement if he/she desires to do so and is expected to be available to respond to appropriate questions.

Audit Fees and Tax Fees

Set forth below are the aggregate audit fees incurred for the professional services provided by Moss Adams and its affiliates in fiscal 2015 and by Deloitte Touche Tohmatsu Limited, and their respective affiliates (collectively, Deloitte & Touche) in fiscal 2014 and the aggregate tax fees incurred for the professional services also provided by Deloitte & Touche in fiscal 2015 and 2014.

	Fiscal Year Ended	
	December 25, 2015	**December 26, 2014**
Audit fees	$ 1,022,953	$ 1,484,250
Tax fees	$ 76,000	$ 63,400

Audit fees consist of fees billed, or to be billed, for services rendered to us and our subsidiaries for the audit of our annual financial statements and internal control over financial reporting, reviews of our quarterly financial statements included in our quarterly reports on Form 10-Q and audit services provided in connection with other statutory and regulatory filings.

Tax fees consist of fees billed for professional services for assistance regarding worldwide transfer pricing analysis and documentation.

Preapproval Policy of Audit Committee of Services Performed by Independent Auditors

The Audit Committee s policy requires that the committee preapprove audit and non-audit services to be provided by our independent auditors before the auditors are engaged to render services. The Audit Committee may delegate its authority to pre-approve services to one or more Audit Committee members; provided that such designees present any such approvals to the full Audit Committee at the next Audit Committee meeting.

All services described above were pre-approved in accordance with the Audit Committee s pre-approval policies.

Dismissal of Deloitte & Touche

During fiscal 2014, Deloitte & Touche served as our independent auditors and also provided tax services. On March 30, 2015, we dismissed Deloitte & Touche as our independent registered public accountant. We continued to employ Deloitte & Touche for tax advice.

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The report of Deloitte & Touche on our consolidated financial statements for the fiscal years ended December 26, 2014 and December 27, 2013 did not contain any adverse opinion or disclaimer of opinion, and was not qualified or modified as to uncertainty, audit scope or accounting principles.

As it relates to the fiscal years ended December 26, 2014 and December 27, 2013, and through March 30, 2015, the effective date of Deloitte & Touche s dismissal, (i) there were no disagreements (as that term is defined in Item 304(a)(1)(iv) of Regulation S-K and the related instructions) between the company and Deloitte & Touche on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, which, if not resolved to the satisfaction of Deloitte & Touche would have caused Deloitte & Touche to make reference to the subject matter of the disagreement in connection with its report, and (ii) there were no reportable events (as that term is defined in Item 304(a)(1)(v) of Regulation S-K).

Board Recommendation

Our Board of Directors recommends that you vote FOR ratification of the appointment of Moss Adams LLP as our independent registered public accounting firm for fiscal 2016.

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REPORT OF THE AUDIT COMMITTEE

REPORT OF THE AUDIT COMMITTEE OF THE BOARD OF DIRECTORS

Notwithstanding any statement to the contrary in any of our previous or future filings with the Securities and Exchange Commission, this report of the Audit Committee of our Board of Directors shall not be deemed filed with the Securities and Exchange Commission or soliciting material under the Securities Exchange Act of 1934, as amended, and shall not be incorporated by reference into any such filings.

The Audit Committee, which currently consists of Barbara V. Scherer, Thomas T. Edman and David T. ibnAle, evaluates audit performance, manages relations with our independent registered public accounting firm and evaluates policies and procedures relating to internal accounting functions and controls. The key responsibilities of our Audit Committee are set forth in our Audit Committee s charter, which is available on our website at http://uct.com/investors/corporate-governance/. This report relates to the activities undertaken by the Audit Committee in fulfilling such responsibilities.

The Audit Committee members are not professional auditors, and their functions are not intended to duplicate or to certify the activities of management and the independent registered public accounting firm. The Audit Committee oversees our financial reporting process on behalf of our Board of Directors. Our management has the primary responsibility for the financial statements and reporting process, including our systems of internal controls over financial reporting. In fulfilling its oversight responsibilities, the Audit Committee reviewed and discussed with management the audited financial statements included in the Annual Report on Form 10-K for the year ended December 25, 2015. This review included a discussion of the quality and the acceptability of our financial reporting and internal control over financial reporting, including the clarity of disclosures in the financial statements.

The Audit Committee also reviewed with our independent registered public accounting firm, who is responsible for expressing an opinion on the conformity of our audited financial statements with generally accepted accounting principles, their judgments as to the quality and the acceptability of our financial reporting and such other matters required to be discussed with the Audit Committee under generally accepted auditing standards in the United States including Statement on Auditing Standards No. 61, as amended (AICPA, Professional Standards, Vol. 1, AU Section 380, as adopted by the Public Company Accounting Oversight Board (the PCAOB) in Rule 3200T). The Audit Committee has received the written disclosures and the letter from the independent registered public accounting firm required by applicable requirements of the PCAOB regarding the independent accountant s communications with the Audit Committee concerning independence. The Audit Committee discussed with the independent registered public accounting firm such auditors independence from management and Ultra Clean, including the matters in such written disclosures required by applicable requirements of the PCAOB regarding the independent accountant s communications with the Audit Committee concerning independence.

The Audit Committee further discussed with our independent registered public accounting firm the overall scope and plans for their audits. The Audit Committee meets periodically with the independent registered public accounting firm, with and without management present, to discuss any significant matters regarding internal control over financial reporting that have come to their attention during the audit, and to discuss the overall quality of our financial reporting.

In reliance on the reviews and discussions referred to above, the Audit Committee recommended to our Board of Directors and our Board of Directors approved that the audited financial statements and disclosures under Management s Discussion and Analysis of Financial Condition and Results of Operations be included in the Annual Report on Form 10-K for the year ended December 25, 2015, as filed with the Securities and Exchange Commission on March 9, 2016.

Members of the Audit Committee

Barbara V. Scherer, Chair

Thomas T. Edman

David T. ibnAle

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PROPOSAL 3: ADVISORY VOTE APPROVING THE COMPENSATION OF THE NAMED EXECUTIVE OFFICERS

This proposal provides you with an opportunity to cast a non-binding advisory vote approving the fiscal 2015 compensation of our named executive officers as disclosed pursuant to the compensation disclosure rules of the SEC in this proxy statement, including the Compensation Discussion and Analysis, the compensation tables and other narrative executive compensation disclosures. Consistent with the non-binding advisory vote of our stockholders at our 2011 Annual Meeting of Stockholders, we will hold a non-binding advisory vote on executive compensation annually until our next non-binding advisory vote on the frequency of stockholder advisory votes on executive compensation, which is required no later than our 2017 Annual Meeting of Stockholders.

The affirmative vote of a majority of the shares of common stock present in person or represented by proxy and entitled to vote on this item will be required to approve, by an advisory vote, the compensation of our named executive officers. Abstentions will have the same effect as negative votes for this proposal. Although, as an advisory vote, this proposal is not binding on us or our Board of Directors, the Compensation Committee and our Board of Directors value the opinions of the stockholders and will consider the outcome of the vote when making future compensation decisions.

As described in detail under the heading Compensation Discussion and Analysis, our executive compensation programs are designed to attract, motivate and retain our named executive officers, who are critical to our success. Under these programs, our named executive officers are rewarded for the achievement of specific short-term and long-term goals. We believe our 2015 executive compensation is appropriate. Please see the Compensation Discussion and Analysis beginning on page 21 for additional details about our executive compensation philosophy and programs, including information about the fiscal 2015 compensation of our named executive officers. This advisory vote is not intended to address any specific item of compensation, but rather the overall compensation principles and practices and the fiscal 2015 compensation of our named executive officers.

Board Recommendation

Our Board of Directors recommends that you vote FOR the approval of the compensation of the named executive officers for fiscal 2015 as disclosed pursuant to the compensation disclosure rules of the SEC, which disclosure includes the Compensation Discussion and Analysis, the compensation tables and other narrative executive compensation disclosures in this proxy statement.

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EXECUTIVE OFFICER COMPENSATION

Compensation Discussion and Analysis

Overview of Compensation Program and Philosophy

Our compensation program is intended to meet three principal long-term objectives:

1. attract, reward and retain officers and other key employees;
2. motivate key employees to achieve short-term and long-term corporate goals that enhance stockholder value; and
3. promote pay for performance, internal equity and external competitiveness.

To meet these objectives, we have adopted the following overriding compensation policies:

- Pay compensation that is competitive with the practices of our peer group of electronics manufacturing services (EMS) companies and the practices of similar companies noted in industry surveys; and
- Pay for performance by:
  - offering cash incentives upon achievement of performance goals we consider challenging but achievable; and
  - providing significant, long-term incentives in the form of stock options and other equity, in order to retain those individuals with the leadership abilities necessary for increasing long-term stockholder value while aligning the interests of our officers with those of our stockholders.

Our Compensation Committee considers these policies in determining the appropriate allocation of long-term compensation, base salaries, annual bonus compensation and other benefits. Other considerations include our business objectives and environment, fiduciary and corporate responsibilities (including internal equity considerations and affordability), competitive practices and trends, and regulatory requirements. In determining the particular elements of compensation that will be used to implement our overall compensation policies, the Compensation Committee takes into consideration a number of factors related to corporate performance, as further described below, as well as competitive practices among our peer group and the practices of similar companies noted in industry surveys.

Fiscal 2015 Key Considerations

Similar to fiscal 2015, and as discussed further below under Process for Determining Executive Compensation, we did not benchmark the compensation of our named executive officers for fiscal 2015 on an executive-by-executive basis against our peer group. In addition, the Compensation Committee determined not to engage an independent compensation consultant to review the competitiveness and structure of the Company s 2015 cash and equity incentive programs or to provide the Compensation Committee with recommendations regarding changes to such plans in connection with the Compensation Committee s decisions on executive compensation for fiscal 2015. In making this determination, the Compensation Committee considered that it engaged an independent compensation consultant for such purpose in 2013. Moreover, the Compensation Committee utilized data from industry surveys on executive compensation to assist it in its determination of executive compensation for fiscal 2015.

Our fiscal 2015 compensation decisions, on an aggregate basis, primarily reflected the state of our business (and in particular, the state of the semiconductor industry), our share price, the state of the global economy and the demand for our products in the industries we served during fiscal 2015. Our sales were $469.1 million for fiscal 2015, representing a decrease of 8.7% compared to $514.0 million in sales for fiscal 2014. Our sales for fiscal 2014, however, represented an increase 15.8% compared to $444.0 million in sales for fiscal 2013. Our

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gross profit also decreased 2.9% in fiscal 2015 compared to fiscal 2014, but increased 8.6% in fiscal 2014 compared to fiscal 2013. Our average closing stock price was $6.79, $9.94 and $6.86 in fiscal 2015, 2014 and 2013, respectively, and was $9.92 at the time compensation decisions were made in February 2015 for fiscal 2015 compensation. Moreover, at the time compensation decisions were made in February 2015 for fiscal 2015 compensation, while our stock price was at a relatively high level as compared to the prior year average closing stock price, the Company was beginning to see some softness in the overall semiconductor equipment market, which it expected to continue over fiscal 2015. Overall, our Compensation Committee set target total compensation at levels relatively consistent with prior years, with actual compensation impacted by our relatively high grant date stock price for 2015, and operating results that reflected relatively challenging market conditions.

On an individual basis, our fiscal 2015 compensation decisions primarily reflected the importance of our top executives (primarily our chief executive officer and our president and chief financial officer) to our business and their roles in guiding the Company s operations through challenging conditions for fiscal 2015. Moreover, compensation decisions for our chief executive officer and our president and chief financial officer were guided by their primary roles in our strategic acquisition activity, which resulted in two successful, significant acquisitions during fiscal 2015 (Marchi Thermal Systems Inc. and Miconex s.r.o.). The Compensation Committee considers these executives, particularly our chief executive officer and president and chief financial officer, to be our primary strategic decision makers and primarily responsible for our overall performance. In addition, we hired Mr. Scholhamer in January 2015 to replace Mr. Granger as our chief executive officer. Accordingly, Mr. Scholhamer s compensation for 2015 was approved by the Compensation Committee based on negotiation with Mr. Scholhamer. Pursuant to Mr. Scholhamer s offer letter approved by the Compensation Committee, we agreed to pay Mr. Scholhamer an annual base salary of $410,000, with an annual target bonus equal to 100% of his base salary, and to grant him an initial award of 200,000 restricted stock units that vest in four equal installments on each anniversary of the grant date, subject to the terms and conditions of our Stock Incentive Plan. Mr. Scholhamer is also eligible for certain severance and change in control benefits, as described under Post-Termination Arrangements below.

Consistent with prior years, each of our named executive officers were eligible for increased cash incentive compensation and earned performance-based equity awards based on our results of operations, thus tying compensation to our performance. The Compensation Committee also considers that the value to our executive officers of their long-term equity incentive awards increases with our stock price, providing our executives with further opportunity to increase the value of the compensation they ultimately realize, while aligning their incentives more closely with stockholder value.

Stockholder Votes

At our 2015 annual meeting of stockholders, the stockholders approved our non-binding advisory vote on our fiscal 2014 executive compensation program (say-on-pay). After considering our say-on-pay voting results and other factors addressed in the subsequent discussion, the Compensation Committee determined not to make changes to our executive compensation policies and practices as a result of the vote. At our fiscal 2011 annual meeting of stockholders, a majority of the stockholders voted to have the non-binding say-on-pay advisory vote appear annually in our proxy statement. Our Board of Directors considered the results of the vote and agreed with the results. Therefore, we are including the non-binding say-on-pay advisory vote on our executive compensation in this year s proxy, and will have annual votes at least until the next stockholder vote on frequency. Executive compensation decisions for fiscal 2015 and other details are discussed below in this compensation discussion and analysis.

Process for Determining Executive Compensation

The Compensation Committee meets with our chief executive officer and other executives, as necessary, to obtain recommendations with respect to Company compensation programs, practices and packages. The chief executive officer makes recommendations to the Compensation Committee on executive performance, base salary, bonus targets and equity compensation for the executive team and other employees, other than himself. Although the Compensation Committee considers management s recommendations with respect to executive compensation, the Compensation Committee makes all final decisions on executive compensation matters.

The chief executive officer attends most of the Compensation Committee s meetings, but the Compensation Committee also holds executive sessions not attended by any members of management or non-independent directors. The Compensation Committee deliberates and makes decisions with respect to performance and compensation without the chief executive officer and the Company s other executives present. The Compensation Committee has the ultimate authority to make decisions with respect to the compensation of our executive officers, but may, if it chooses, delegate some of its responsibilities to subcommittees. The Compensation Committee has not in the past delegated authority with respect to the compensation of executive officers. The Compensation Committee has delegated to the chief executive officer the authority to grant equity awards to employees below the level of corporate vice president under guidelines approved by the Compensation Committee and to make salary adjustments and short-term bonus decisions for employees (other than executive officers) under guidelines approved by the Compensation Committee.

The Compensation Committee also periodically seeks input from independent compensation consultants prior to making determinations on executive compensation, though no such consultant was engaged for such purpose with respect to fiscal 2015 compensation. The Compensation Committee has the sole authority to retain and terminate independent legal, financial, accounting or other advisors as it determines necessary to carry out its duties, without conferring with or obtaining the approval of management or the full Board of Directors, including the sole authority to approve the fees and other retention terms of any such firm. The Compensation Committee also utilizes data from industry surveys on executive compensation to assist it in its determination of executive compensation.

Elements of Compensation

The following are the primary elements of our executive compensation program:

(i) base salary;

(ii) annual performance-based cash incentive opportunities;

(iii) long-term incentives through equity awards; and

(iv) retirement and welfare benefit plans, including a deferred compensation plan, a 401(k) plan, limited executive perquisites and other benefit programs generally available to all employees.

We have selected these elements because each is considered useful and/or necessary to meet one or more of the principal objectives of our compensation policy. For example, base salary and bonus target percentages are set with the goal of attracting employees and adequately compensating and rewarding them for their individual performance, level of responsibility, time spent with the Company and the Company s annual financial results, while our equity programs are geared toward providing incentives and rewards for the achievement of long-term business objectives and retaining key talent. We believe that these elements of compensation, when combined, are effective, and will continue to be effective, in achieving the objectives of our compensation program.

The Compensation Committee reviews base salary, cash incentive programs and long-term incentive programs on at least an annual basis. Other programs are reviewed from time to time to ensure that benefit levels remain competitive but are not included in the annual determination of an executive s compensation package. In setting compensation levels for a particular executive, the Compensation Committee takes into consideration the proposed compensation package as a whole and each element individually, as well as the executive s past and expected future contributions to our business.

Although we did not benchmark our executive compensation for fiscal 2015 against our peer group, our long-term goal has been to target total compensation, including base salaries, cash incentive awards and equity

awards near the 50th percentile among our peer group. To achieve this, our goal has been to allocate total compensation such that cash compensation (including base pay and annual bonus) falls between the 25th and 50th percentile among the peer group, and time and performance-based equity awards, which provide our executives with long-term incentives, fall between the 50th and 75th percentile of the peer group, consistent with our pay-for-performance objectives and focusing on creation of long-term stockholder value. Notwithstanding these long-term compensation objectives, the Compensation Committee considers uncertainty in the macroeconomy and cyclicality in the industries we serve, among other factors, in determining compensation packages for our executive officers, and in recent years, these considerations have resulted in compensation that our Compensation Committee believed were below our long-term target percentiles within our peer group. In addition, the Compensation Committee considers our stock price in determining to grant equity incentive awards, so as to provide competitive long-term incentives but avoid excess dilution and conserve the number of shares available for future grant under our stock incentive plan.

Cash Compensation

Base salaries and cash bonuses are a significant portion of our executive compensation package. We believe this cash compensation helps us remain competitive in attracting and retaining executive talent. Bonuses also are paid in order to motivate officers to achieve our business goals. The Compensation Committee also considers other factors such as job performance, responsibilities, skill set, prior experience, the executive s time in his or her position and/or with the Company, internal consistency regarding pay levels for similar positions or skill levels within the Company, and external pressures to attract and retain talent. In setting executive compensation, including the performance goals upon which certain components of our executive compensation is based, the Compensation Committee also takes into account the cyclical nature of our business and the state of our industry and the economy in general.

Base Salaries. In fiscal 2015, the Compensation Committee determined the base salary of our new chief executive officer to be $410,000 (which was prorated for 2015 based on his start date), based on negotiation with Mr. Scholhamer. In addition, in March 2015, in connection with his promotion to our president and chief executive officer, the Compensation Committee determined to increase Mr. Eichler s base salary to $370,000 (which was prorated for 2015 based on the effective date of his promotion), representing an increase of approximately 5.4% as compared to the level of his base salary in fiscal 2014. These levels were set after considering the significance of the roles of these executives in our overall management for fiscal 2015 and the Compensation Committee s determination of the correlation of their responsibilities with our overall corporate operating performance. For the remainder of our named executive officers, the Compensation Committee determined to increase base salaries modestly by approximately 3% to 5%. While the Compensation Committee did not benchmark base salaries against a peer group for fiscal 2015, in determining to increase base salaries for fiscal 2015, the Compensation Committee considered industry survey data on executive compensation for similarly situated executives. Overall, the Compensation Committee determined that the base salary levels/increases were consistent with the Company s overall compensation objectives and appropriate to retain our executives at a point in time at which the Company had positive results for fiscal 2014 but was beginning to see some softness in the semiconductor equipment industry over the next several quarters.

Incentive Bonuses. Our Management Bonus Plan awards participants with cash incentives in the event we achieve specified levels of operating income. All of the Company s employees with a title of director and above are eligible to participate in the Management Bonus Plan. In fiscal 2015, we paid cash incentive bonuses on the basis of the quarterly achievement of target operating income for fiscal 2015, which targets were unchanged from the fiscal 2014 achievement levels, as set forth in the table below. For fiscal 2015, for purposes of our Management Bonus Plan, operating income refers to operating income calculated in accordance with accounting principles generally accepted in the United States, but excluding the non-cash amortization costs and other non-recurring expenses relating to our acquisitions.

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Fiscal 2015 Achievement Levels*

Operating Income as a Percentage of Revenue	Percentage of Operating Income Paid Under the Management Bonus Plan
1.00%	0.00%
2.00%	0.00%
3.00%	3.00%
4.00%	5.00%
5.00%	6.00%
6.00%	6.20%
7.00%	6.50%
8.00%	7.50%
9.00%	8.50%
10.00%	9.00%
11.00%	9.00%

* Operating income must be at least 3% of revenue for the plan to be funded in any given quarter. If operating income is above 3% and is in between percentages in the table above, the percentage of operating income distributed to participants is prorated between the applicable amounts shown above.

Bonuses under the Management Bonus Plan are calculated and paid on a quarterly basis, which we believe to have a positive effect on employee morale. Each quarter, we calculate the total available pool of cash incentive bonuses using the Percentage of Operating Income Distributed as Cash Incentive Compensation as discussed above. For the four quarters of fiscal 2015, our aggregate quarterly bonuses were paid based on the following:

Quarter in Fiscal 2015	Operating Income as a Percentage of Revenue (1)	Percentage of Operating Income Paid Under Management Bonus Plan
First	5.1%	6.0%
Second	4.1%	5.1%
Third	4.1%	5.1%
Fourth	-0.5%	0.0%

(1) Excludes non-cash amortization costs and other non-recurring expenses relating to our acquisitions.

Once the available pool is determined for a given fiscal quarter as described above, the pool is then allocated among the participants in the plan, including our participating named executive officers, in accordance with each individual participant s target bonus percentage, which is calculated as a percentage of base salary. For fiscal 2015, the target bonus percentages and actual paid bonuses as a percentage of base salary for each of our named executive officers were as follows (excluding Mr. Granger, who retired in January 2015):

Named Executive Officer

	Target Bonus as a Percentage of Base Salary		Actual Bonus as a Percentage of Base Salary
	2015	2014	2015
James P. Scholhamer	100%	N/A[(1)]	37%
Kevin C. Eichler	75%	70%	32%
Mark G. Bingaman	40%	40%	18%
Deborah E. Hayward	40%	40%	18%
Lavi A. Lev	40%	40%	19%

(1) Mr. Scholhamer joined the Company in January 2015.

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If the available pool is not sufficient to allocate each participant a bonus equal to his or her target bonus percentage multiplied by his or her base salary for the quarter (full payout), then the available pool is allocated among each participant in the plan based on the ratio of that participant s full payout to the aggregate of full payouts for all participants. If the available pool exceeds the amount necessary to allocate each participant his or her full payout, then the excess is allocated among participants in the same manner as shortfalls. The maximum allowable bonus for any quarter is two times a participant s full payout amount.

The Compensation Committee believes that operating income is the most appropriate metric upon which to base cash incentive bonuses due to the fact that it is highly correlated with both revenue growth and profitability, as well as being the measure of operating results for which our executives can be held most accountable, and thus is the most effective measure of their overall performance. The Compensation Committee also believes operating income to be an appropriate metric based on its historical correlation with our public share price.

The Compensation Committee reviews the Management Bonus Plan achievement levels annually, considering projected operating results under the Company s annual operating plan and other factors discussed below.

Target bonus percentages are reviewed and approved on an annual basis for each named executive officer and established based on each named executive officer s role and level of responsibility within the organization. For fiscal 2015, the Compensation Committee determined the target bonus of our new chief executive officer based on negotiation with Mr. Scholhamer. In addition, in March 2015, in connection with his promotion to president and chief executive officer, the Compensation Committee determined to increase Mr. Eichler s target bonus to 75% of his base salary, from 70% for fiscal 2014. The Compensation Committee determined that these levels were appropriate due to the significance of these executives roles in our overall management for fiscal 2015, their status as our most senior executives and the Compensation Committee s determination of the correlation of their responsibilities with our overall corporate operating performance. Moreover, the Compensation Committee noted that Mr. Scholhamer s target bonus was consistent with our prior chief executive officer s target for fiscal 2014 and fiscal 2013. The Compensation Committee set the bonus target percentages for the remaining named executive officers at levels consistent with the prior year.

Target bonus percentages are used primarily to allocate the available bonus pool under our Management Bonus Plan among the plan participants each quarter, and do not necessarily reflect the actual amount of bonuses as a percentage of base salary we are targeting for our named executive officers. The Compensation Committee approves the achievement levels and target bonus percentages after considering the potential bonus pool available under the Management Bonus Plan at various levels of operating performance.

Overall, the Compensation Committee seeks to tie a significant proportion of cash compensation to performance, while factoring in our current and expected financial results given current and expected business conditions and the cyclical nature of the semiconductor equipment industry. The Compensation Committee also recognized that the Management Bonus Plan provides increased cash payments to our executives if we achieve results above targets, providing our executives an opportunity to achieve higher cash compensation for performance above expectations. We intend the performance goals to be challenging and to reflect strong corporate performance. To help achieve our goal of retaining key talent, an executive must remain an employee through the time the bonus is paid in order to be eligible for any bonus under the Management Bonus Plan.

Generally, bonuses are paid under our Management Bonus Plan only if the performance goals described above, which the Compensation Committee sets at the beginning of the fiscal year, are achieved, although the Compensation Committee retains the ability to revise performance measures during the year or to adjust bonuses based on extraordinary events or individual performance. Consistent with our pay-for-performance philosophy, bonuses for fiscal 2015 were paid out in accordance with the performance goals described above, without adjustment. Actual bonuses for our incumbent named executive officers as a percentage of base salary for 2015 were lower than for 2014 primarily due to our operating results in fiscal 2015 as compared to fiscal 2014. See Summary Compensation Table below.

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Equity Compensation

Our equity compensation program is intended to align the interests of our officers with those of our stockholders by creating an incentive for our officers to maximize stockholder value. The equity compensation program also is designed to encourage our officers to remain employed with us in a very competitive labor market. The Compensation Committee regularly monitors the changes in the business environment in which we operate and periodically reviews changes to our equity compensation program to help us meet our goals, which include the achievement of long-term stockholder value.

Types of Equity Awards. In fiscal 2015, consistent with recent years, we granted our named executive officers restricted stock units, or RSUs, which we believe are effective in retaining and motivating employees because they provide a predictable, tangible value to employees while also serving as an incentive to increase the value of our stock. RSUs are also an efficient way for us to reduce the dilutive effects of equity awards. We grant both time-based and performance-based RSUs to our executive officers. The Compensation Committee believes this combination provides a balance between awards that provide high incentive value (in the form of performance-based RSUs, which will only vest if we meet performance criteria combined with service requirements) and awards that provide high retention value (in the form of time-based RSUs, which will have at least some value over time while imposing continued service requirements, and requiring time-based vesting of the earned performance units). In fiscal 2015, the Compensation Committee granted the following long-term equity awards to our named executive officers:

Named Executive Officer	Time-based RSUs	Performance-based RSUs
James P. Scholhamer	200,000	
Kevin C. Eichler	82,500	42,500
Mark G. Bingaman	15,000	5,000
Deborah E. Hayward	12,000	4,000
Lavi A. Lev	21,000	7,000

The number of equity awards the Compensation Committee granted to each executive officer in fiscal 2015 was determined based on a variety of factors. In deciding the awards for fiscal 2015, the Compensation Committee considered each individual executive s job performance, but primarily his or her level of job responsibility. The Compensation Committee also considered that the Compensation Committee discussed the use of long-term equity awards as a means to retain and incentivize executives as well as our long-term, overall compensation targets. Awards are also influenced by our stock price at the time the awards are granted, as well as new hirings and promotions.

The number (and related vesting terms) of RSUs granted to our new chief executive officer, Mr. Scholhamer, for fiscal 2015 was determined based on negotiation with Mr. Scholhamer. For Mr. Eichler, the Compensation Committee determined to grant Mr. Eichler an additional 40,000 time-based RSUs in connection with his promotion to our president and chief financial officer in March 2015. Including this promotional grant, the grant date fair value of the RSUs granted to Mr. Eichler in fiscal 2015 was consistent with the grant date fair value of the RSUs granted to Mr. Eichler in fiscal 2014, primarily as a result of our lower stock price, offset by an increase in the number of RSUs granted. The grant date fair value of fiscal 2015 RSUs granted to our other named executive officers decreased as compared to the grant date fair value of RSUs granted in fiscal 2014, due primarily to our lower stock price as compared to the grant date of fiscal 2014 awards.

The equity awards granted during fiscal 2015 to our named executive officers are set forth in detail under Grants of Plan-Based Awards below. All time-based RSUs granted to our named executive officers (except to our chief executive officer) in fiscal 2015, and all performance-based RSUs earned based on fiscal 2015 performance, vest over a period of 3 years from the grant date in equal annual installments. The RSUs granted to Mr. Scholhamer when he was appointed to become our chief executive officer will vest over a period of 4 years from the grant date in equal annual installments.

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Promotional and New Hire Grants.

The Compensation Committee s policy has been to make promotional grants, including Mr. Eichler s promotional grant in fiscal 2015, on solely a time-based vesting schedule to enhance retention. For Mr. Scholhamer, the Compensation Committee believed it was appropriate and necessary to make his new hire grant on solely a time-based vesting schedule in order to incentivize him to join the Company and because he did not participate in the Company s business planning for fiscal 2015 prior to his date of hire.

Annual Refresh Grants.

The mix of time-based and performance-based awards for annual refresh grants made in fiscal 2015 was also consistent with prior years. In allocating equity awards between time-based and performance-based awards, the Compensation Committee considers each named executive officer s level of responsibility, and the relationship between that named executive officer s performance and our public share price. Consistent with prior years, the Compensation Committee determined that 50% of the annual refresh equity awards that were granted to our president and chief financial officer would consist of performance-based awards because his role focuses more on overall corporate performance than our other incumbent named executive officers. For our other incumbent named executive officers, the Compensation Committee determined that 25% of the equity awards would consist of performance-based awards. Performance-based awards granted in fiscal 2015 to our named executive officers are earned according to the following performance criteria. For fiscal 2015, for purposes of our performance-based awards, operating income is calculated consistent with our Management Bonus Plan.

% earned	**0%**	**60%**	**65%**	**70%**	**75%**	**80%**	**85%**	**90%**	**95%**	**100%**
Operating income (in thousands)	below $ 15,620	$ 15,620	$ 16,992	$ 18,224	$ 19,526	$ 20,827	$ 22,129	$ 23,431	$ 24,732	at or above $ 26,034

The Compensation Committee determined, based our actual results for fiscal 2015, that 60% of the performance-based awards granted to our named executive officers in fiscal 2015 were earned. The remaining 40% of such performance-based awards for each applicable executive officer were cancelled.

Grant Practices. We have implemented procedures to regularize our equity award grant process, such as making new hire grants and annual executive grants on the same day each month. The Compensation Committee has not granted, nor does it intend in the future to grant, equity compensation awards to executives in anticipation of the release of material nonpublic information that is likely to result in changes to the price of our common stock, such as a significant positive or negative earnings announcement. Similarly, the Compensation Committee has not timed, nor does it intend in the future to time, the release of material nonpublic information based on equity award grant dates. Because our equity awards typically vest over multiple years, we believe recipients are motivated to see our stock price rise in the long-term rather than benefit from an immediate but short-term increase in the price of our stock following a grant.

Other Benefit Plans

Deferred Compensation. We maintain a non-qualified deferred compensation plan, which allows eligible employees, including executive officers and directors, to voluntarily defer receipt of the portion of his/her salary above a specified amount and all or a portion of a bonus payment until the date or dates elected by the participant, thereby allowing the participating employee to defer taxation on such amounts. This plan gives highly compensated employees the opportunity to defer more compensation than they would otherwise be permitted to defer under a tax-qualified retirement plan, such as our 401(k) plan. We believe that deferred compensation is a competitive practice to enable us to attract and retain top talent. We do not make matching or other employer contributions to the deferred compensation plan because we believe the deferral opportunity is enough of a benefit on its own.

Executive Perquisites. In addition to health care coverage that is generally available to our other employees, our executive officers are eligible for annual physical examinations more extensive than under the Company s standard plans. Our chief executive officer and employees in sales and marketing also received a car allowance.

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Because Mr. Lev relocated to Singapore to serve as our senior vice president of Asia, we agreed to provide Mr. Lev with a housing and car allowance. In addition, we agreed to make Mr. Lev whole for any income taxes for which he is responsible above that which he would be responsible for if he received a comparable salary as a resident the United States. No such tax equalization payments were made to Mr. Lev for fiscal 2015. See Summary Compensation Table below for more information.

Other Benefits. We also offer a number of other benefits to the executive officers pursuant to benefit programs that provide for broad-based employee participation. For example, our retirement plan is a tax-qualified 401(k) plan, which is a broad-based employee plan. Under the 401(k) plan, all participating employees (including executive officers) are eligible to receive limited matching contributions that are subject to vesting over time.

The main objectives of our benefits programs are to give our employees access to quality healthcare, financial protection from unforeseen events, assistance in achieving retirement financial goals, enhanced health and productivity and to provide support for global workforce mobility, in full compliance with applicable legal requirements. These generally available benefits typically do not specifically factor into decisions regarding an individual executive s total compensation or equity award package.

Post-Termination Arrangements

Our post-termination arrangements are described in this proxy statement below. We believe the severance benefits under these agreements or policies are reasonable in amount, and provide a protection to key executive officers who would be likely to receive similar benefits from our competitors. The Compensation Committee reviews the potential costs and triggering events of employment and severance agreements and policies before approving them and will continue to consider appropriate and reasonable measures to encourage retention.

Accounting and Tax Considerations

In designing its compensation programs, the Compensation Committee generally considers the accounting and tax effects as well as direct costs. For example, we intend to limit the accounting expense for our equity compensation programs in an amount determined by the Compensation Committee from time to time. When determining how to apportion between differing elements of compensation, the goal is to meet our compensation objectives while maintaining cost neutrality. For example, if we increase benefits under one program resulting in higher compensation expense, we may seek to decrease costs under another program based on our determination of the affordability level. We recognize a charge to earnings for accounting purposes when equity awards are granted. The Compensation Committee considers the impact to dilution and overhang when making decisions pertaining to equity instruments.

We do not require executive compensation to be tax deductible for the Company, but instead balance the cost and benefits of tax deductibility to comply with our executive compensation goals.

Compensation Committee Report

The Compensation Committee of the Board of Directors of Ultra Clean Holdings, Inc. has reviewed and discussed the Compensation Discussion and Analysis, which appears in this proxy statement, with the management of Ultra Clean Holdings, Inc. Based on this review and discussion, the Compensation Committee recommended to the Board of Directors that the Compensation Discussion and Analysis be included in Ultra Clean Holdings, Inc. s proxy statement.

Members of the Compensation Committee

David T. ibnAle, Chair

Thomas T. Edman

Emily M. Liggett

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Summary Compensation Table

The following table shows compensation information for the three most recently completed fiscal years for our principal executive officer, our principal financial officer and our other three most highly compensated executive officers as of December 25, 2015 (collectively, our named executive officers):

Name and Position	Year	Salary ($)	Stock Awards ($) (1)	Non-Equity Incentive Plan Compensation ($) (2)	All Other Compensation ($)	Total ($)
James P. Scholhamer	2015	370,577	1,848,000	137,932	1,516	2,358,025
Chief Executive Officer						
Kevin C. Eichler	2015	364,718	1,002,150	117,451	7,853 (3)	1,492,172
President & Chief Financial Officer	2014	344,696	999,750	238,790	12,040	1,595,276
	2013	329,192	364,200	126,066	12,199	831,657
Deborah E. Hayward	2015	257,500	133,600	46,040	6,401 (4)	443,541
Senior Vice President, Sales	2014	239,154	186,620	100,303	3,335	529,412
	2013	214,848	121,400	124,620	8,669	469,537
Lavi A. Lev	2015	247,199	233,800	47,272	234,634 (5)	762,905
Senior Vice President, Asia	2014	247,200	453,220	100,357	234,005	1,034,782
	2013	244,274	121,400	52,896	146,728	565,298
Mark G. Bingaman	2015	271,314	167,000	48,179	11,652 (6)	498,145
Senior Vice President of Global Materials & Supply Chain	2014	263,423	245,800	104,419	7,195	620,837
Management	2013	255,170	133,540	24,815	7,823	421,348
Clarence L. Granger	2015	51,783			2,400,058 (7)	2,451,841
Former Chief Executive Officer	2014	454,950	1,333,000	444,055	11,554	2,243,559
	2013	436,933	500,775	237,642	19,498	1,194,848

(1) Amounts shown do not reflect compensation actually received by the named executive officers. The amounts shown are the grant date fair value for stock awards granted in the applicable fiscal year, based on the per share closing price of our common stock the day preceding the grant date. The other valuation assumptions and the methodology used to determine such amounts are set forth in Note 1 of the Notes to our Consolidated Financial Statements included in our Form 10-K for the year ended December 25, 2015.

(2) Amounts consist of incentive bonuses and, for Ms. Hayward, sales commissions for 2013.

(3) This amount consists of a matching contribution of $6,628 under the 401(k) Plan and payment on behalf of Mr. Eichler of $1,225 in long-term disability and life insurance premiums.

(4) This amount consists of a matching contribution of $2,884 under the 401(k) Plan and payment on behalf of Ms. Hayward of $3,517 in long-term disability and life insurance premiums.

(5) This amount consists of $184,800 and $48,000 of housing and transportation benefits, respectively and payment on behalf of Mr. Lev of $1,834 in long-term disability and life insurance premiums.

(6)

This amount consists of a matching contribution of $6,815 under the 401(k) Plan and payment on behalf of Mr. Bingaman of $4,837 in long-term disability and life insurance premiums.

(7) On January 5, 2015, we announced Mr. Granger s retirement as our chief executive officer. In connection with his retirement, we and Mr. Granger entered into a Transition Agreement, pursuant to which, subject to a release of claims, Mr. Granger received a lump sum cash payment equal to $2,400,000. Mr. Granger also continued to receive his then-current salary and benefits through January 19, 2015, including payment on behalf of Mr. Granger of $58 in long-term disability and life insurance premiums. Mr. Granger remains as our non-executive Chairman of the Board of Directors. See the table included under Director Compensation for Mr. Granger s non-employee director fee and grant received in fiscal 2015.

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Grants of Plan-Based Awards

The following table shows all plan-based awards granted to the named executive officers during fiscal 2015:

			Estimated Future Payouts Under Non-Equity Incentive Plan Awards (1)		Estimated Future Payouts Under Equity Incentive Plans (2)				
Name	**Grant Date**	**Compensation Committee Compensation Action Date**	**Target ($)**	**Maximum ($)**	**Threshold (#)**	**Target (#)**	**Maximum (#)**	**All Other Stock Awards: Number of Shares of Stock or Units (#) (3)**	**Grant Date Fair Value of Stock Awards ($) (4)**
James P. Scholhamer			410,000	820,000					
Chief Executive Officer	1/30/2015	12/29/2014						200,000	1,848,000
Kevin C. Eichler			277,500	555,000					
President & Chief Financial Officer	2/27/2015	2/11/2015			25,500	42,500	42,500		354,875
	2/27/2015	2/11/2015						42,500	354,875
	3/27/2015	3/24/2015						40,000	292,400
Deborah E. Hayward			105,060	210,120					
Senior Vice President, Sales	2/27/2015	2/11/2015			2,400	4,000	4,000		33,400
	2/27/2015	2/11/2015						12,000	100,200
Lavi A. Lev			109,015	218,030					
Senior Vice President, Asia	2/27/2015	2/11/2015			4,200	7,000	7,000		58,450
	2/27/2015	2/11/2015						21,000	175,350
Mark G. Bingaman			110,009	220,018					
Sr. VP of Global Materials &	2/27/2015	2/11/2015			3,000	5,000	5,000		41,750
Supply Chain Management	2/27/2015	2/11/2015						15,000	125,250

(1) Reflects target at 100% and maximum cash award amounts pursuant to the Management Bonus Plan for fiscal 2015.

(2) Reflects performance-based restricted stock units. On the basis of performance criteria for fiscal 2015, 40% of all performance-based units granted in fiscal 2015 were cancelled.

(3) Represents time-based stock units issued under our stock incentive plan

(4) Under the terms of our stock incentive plan, fair market value is defined as the closing price on the day preceding the grant date. Our practice is for grants to be effective on the last Friday of the month in which the grant is approved.

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Outstanding Equity Awards

The following table shows all outstanding equity awards held by the named executive officers as of December 25, 2015:

	Option Awards				Stock Awards	
Name	Number of Securities Underlying Unexercised Options Exercisable (#)	Number of Securities Underlying Unexercised Options Unexercisable (#)	Option Exercise Price ($)	Option Expiration Date	Shares or Units That Have Not Vested (#)	Market Value of Shares or Units That Have Not Vested ($) (1)
James P. Scholhamer					200,000 (2)	1,076,000
Kevin C. Eichler	100,000		3.96	7/31/2019		
					8,200 (3)	44,116
					10,000 (4)	53,800
					25,000 (5)	134,500
					22,750 (6)	122,395
					42,500 (7)	228,650
					25,500 (8)	137,190
					40,000 (9)	215,200
Deborah E. Hayward	30,000		14.9	4/27/2017		
					1,368 (3)	7,359
					5,000 (4)	26,900
					7,000 (5)	37,660
					2,124 (6)	11,427
					12,000 (7)	64,560
					2,400 (8)	12,912
Lavi A. Lev					1,368 (3)	7,359
					5,000 (4)	26,900
					19,500 (5)	104,910
					2,882 (6)	15,505
					21,000 (7)	112,980
					4,200 (8)	22,596
Mark G. Bingaman					1,504 (3)	8,091
					5,500 (4)	29,590
					7,500 (5)	40,350
					2,275 (6)	12,240
					15,000 (7)	80,700
					3,000 (8)	16,140
					3,333 (10)	17,932

(1) The most recent closing price of our common stock as of December 25, 2015 (our fiscal 2015 year end) was $5.38.

(2) 1/4 of remaining units vest on January 30, 2016 and 1/4 vest on each year thereafter.

(3) Represents remaining unvested performance-based award earned for fiscal 2013 performance, which vests on May 22, 2016.

(4) Remaining units vest on May 22, 2016.

(5) 1/2 of remaining units vest on each of February 28, 2016 and February 28, 2017.

(6) Represents remaining unvested performance-based award earned for fiscal 2014 performance. 1/2 of remaining units vest on each of February 28, 2016 and February 28, 2017.

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(7) 1/3 of remaining units vest on 2/27/2016 and 1/3 each year thereafter.

(8) Represents earned portion of performance-based awards granted in fiscal 2015. These units exclude 40% of the performance-based awards granted in fiscal 2015, which were cancelled as some of the performance criteria was not met. 1/3 of remaining units vest on 2/27/2016 and 1/3 each year thereafter.

(9) 1/3 of remaining units vest on 3/27/2016 and 1/3 each year thereafter.

(10) 1/2 of remaining units vest on each of 7/25/2016 and 7/25/2017.

Option Exercises and Stock Vested

The following table shows all stock options exercised and value realized upon exercise, and all stock awards vested and value realized upon vesting, by the named executive officers during fiscal 2015, which ended on December 25, 2015:

	Option Awards		Stock Awards	
Name	**Number of Shares Acquired on Exercise (#)**	**Value Realized on Exercise ($) (1)**	**Number of Shares Acquired on Vesting (#)**	**Value Realized on Vesting ($) (2)**
James P. Scholhamer				
Clarence L. Granger	334,157	585,876		
Kevin C. Eichler			48,742	405,339
Mark G. Bingaman			18,057	148,218
Deborah E. Hayward			14,677	122,187
Lavi A. Lev			22,056	183,137

(1) The value realized equals the difference between the option exercise price and the fair market value of the Company s common stock on the date of exercise, multiplied by the number of shares for which the option was exercised.

(2) The value realized equals the fair market value of the Company s common stock on the date of vesting multiplied by the number of stock awards vesting.

Nonqualified Deferred Compensation

We maintain a nonqualified deferred compensation plan, the Ultra Clean Holdings, Inc. 2004 Executive Deferred Compensation Plan (the EDCP), which allows eligible employees, including executive officers, and directors to voluntarily defer receipt of a portion of his/her salary and all or a portion of a bonus payment until the date or dates elected by the participant, thereby allowing the participating employee to defer taxation on such amounts. Amounts credited to the EDCP consist only of cash compensation that has been earned and payment of which has been deferred by the participant. The amounts deferred under the EDCP are credited with realized gains on investments and interest at market rates on cash balances. We do not make matching or other employer contributions to the EDCP.

The following table shows certain information for the named executive officers under the EDCP for fiscal 2015:

Name	**Executive Contributions in Last Fiscal**	**Registrant Contributions in Last Fiscal**	**Aggregate Earnings in Last**	**Aggregate Withdrawals/ Distributions**	**Aggregate Balance at Last Fiscal Year end**

	Year ($) (1)	Year ($)	Fiscal Year ($) (2)	($)	($) (3)
Clarence L. Granger			(7,773)	(601,783)	296,816
Kevin C. Eichler			6,480		693,809
Mark G. Bingaman	50,198		(6,390)		550,111

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(1) Consists of salary reported in the Summary Compensation Table under the columns entitled Salary.

(2) Includes realized and unrealized gains (losses) and interest earned during the 2015 fiscal year.

(3) Consists of aggregate salary deferred in applicable fiscal years and reported in the Summary Compensation Table in such years, plus the aggregate of earnings (losses) in applicable fiscal years.

Post-Termination Arrangements

Change in Control Severance Agreement with James P. Scholhamer. We entered into a Change in Control Severance Agreement with James P. Scholhamer dated January 19, 2016. If upon, or within 3 months prior to or 12 months following, a change in control, Mr. Scholhamer is terminated without cause or he resigns for good reason, he is entitled to receive 200% of his then-current salary, plus 200% of average annual cash bonus as determined by us over the prior three years, payment or reimbursement of health benefit continuation coverage under COBRA for 24 months (or, if earlier, until he becomes eligible for group health coverage with another employer) and accelerated vesting of 100% of his unvested outstanding equity awards.

Change in Control Severance Agreement with Kevin C. Eichler. We entered into a Change in Control Severance Agreement with Kevin C. Eichler dated July 31, 2009. Such agreement provides that, if upon, or within 12 months following, a change in control, Mr. Eichler is terminated without cause or he resigns for good reason, he is entitled to receive 150% of his then-current salary, plus 150% of average annual cash bonus as determined by us over the prior three years, payment or reimbursement of health benefit continuation coverage under COBRA for 18 months (or, if earlier, until he becomes eligible for group health coverage with another employer) and accelerated vesting of 100% of his unvested outstanding equity awards. We do not provide any tax gross-ups.

In the Change in Control Severance Agreements described above, good reason is defined as (i) a reduction in the executive s then existing annual salary (by more than 10% in the case of Mr. Eichler) other than in connection with an action affecting a majority of the executive officers of the Company (not to exceed 25% in the case of Mr. Scholhamer), (ii) relocation of the principal place of the executive s employment to a location more than 50 miles from the principal place of executive s employment prior to the change in control and (iii) a material reduction in the executive s authority, duties or responsibilities after the change in control.

The following table shows amounts that would have been paid if certain named executive officers had been terminated on December 25, 2015 in connection with a change of control:

Name	Salary ($)	Cash Incentive ($)	Health Benefits ($)	Value of Accelerated Vesting ($) (1)	Total Severance ($)
James P. Scholhamer	820,000	275,864	40,297	1,076,000	2,212,161
Kevin C. Eichler	555,000	206,238	30,815	935,851	1,727,904

(1) Amounts based on our stock price as of December 25, 2015, less the option exercise price, in the case of options.

Severance Policy for Executive Officers. Under our severance policy for executive officers of the Company, in the event that the chief executive officer is terminated without cause and signs a release of claims, the executive would receive 150% of the executive s then-current salary, plus 150% of the executive s average annual cash bonus and cash incentive compensation as determined by us over the prior three years, payment of health benefit continuation coverage under COBRA for 18 months (or, if earlier, until he becomes eligible for group health coverage with another employer) and immediate vesting of unvested outstanding equity awards that would vest within 18 months. In the event that the chief financial officer or chief operating officer is terminated without cause and signs a release of claims, the executive would receive 100% of the executive s then-current

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salary, 100% of the executive s average annual cash bonus and cash incentive compensation as determined by us over the prior three years, payment of health benefit continuation coverage under COBRA for 12 months (or, if earlier, until he becomes eligible for group health coverage with another employer) and immediate vesting of unvested outstanding equity awards that would vest within 12 months. In the event that an executive officer, other than those described in the foregoing, is terminated without cause and signs a release of claims, the executive would receive 75% of the executive s then-current salary, 50% of the executive s average annual cash bonus and cash incentive compensation as determined by us over the prior three years and payment of health benefit continuation coverage under COBRA for 9 months (or, if earlier, until he becomes eligible for group health coverage with another employer). We may revise or terminate this policy at any time, except that following a change in control, the policy may not be terminated or amended to adversely affect a participant for 12 months thereafter.

In addition, pursuant to Mr. Lev s offer letter, should we decide to terminate Mr. Lev s assignment without cause, or fail to identify another similar position for Mr. Lev at our offices in Hayward, California (or another mutually agreed upon location with a similar cost of living) at the end of Mr. Lev s current assignment (a Replacement Position), Mr. Lev is entitled to receive a severance benefit of 12 months salary continuation (at the base pay rate in effect at the time), the earned but unpaid portion of bonus and equity award vesting for 12 months, and health benefits continuation through COBRA (with the Company s contribution paid by the Company with normal employee contributions deducted).

The following table shows amounts that would have been paid if the named executive officers had been terminated without cause (or, in the case of Mr. Lev, if we are unable to identify a Replacement Position) on December 25, 2015:

Name [1]	Salary ($)	Cash Incentive ($)	Health Benefits ($)	Value of Accelerated Vesting ($)	Total Severance ($)
James P. Scholhamer	615,000	206,898	30,223	538,000	1,390,121
Kevin C. Eichler	370,000	137,492	20,149	420,044	947,685
Deborah E. Hayward	196,988	46,222	15,407		258,617
Lavi Lev	204,404	28,549	23,733		256,686
Mark G. Bingaman	206,267	29,569	10,501		246,337

(1) Our former chief executive officer, Clarence L. Granger, is not included in this table. On January 5, 2015, we announced Mr. Granger s retirement as our chief executive officer. In connection with his retirement, we and Mr. Granger entered into a Transition Agreement, pursuant to which, subject to a release of claims, Mr. Granger received a lump sum cash payment equal to $2,400,000. Mr. Granger also continued to receive his then-current salary and benefits through January 19, 2015. Mr. Granger remains as our non-executive Chairman of the Board of Directors. See the table included under Director Compensation for Mr. Granger s non-employee director fee and grant received in fiscal 2015.

Compensation Committee Interlocks and Insider Participation

The current members of the Compensation Committee are David T. ibnAle (chair), Emily M. Ligget and Thomas T. Edman. No member of our Compensation Committee is or was an officer or employee of the Company during 2015. None of our executive officers serves or served during 2015 as a member of the board of directors or compensation committee of any entity that has one or more executive officers serving as a member of our Board of Directors or its Compensation Committee.

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OTHER MATTERS

We know of no other matters to be submitted to the meeting. If any other matters properly come before the meeting, it is the intention of the persons named in the enclosed form of proxy to vote the shares they represent as the Company or the Company s management may recommend.

BY ORDER OF THE BOARD OF DIRECTORS

By: /s/ James P. Scholhamer
Name: James P. Scholhamer
Title: Chief Executive Officer

Dated: April 22, 2016

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ULTRA CLEAN HOLDINGS, INC.

26462 CORPORATE AVENUE

HAYWARD, CA 94545

VOTE BY INTERNET - www.proxyvote.com

Use the Internet to transmit your voting instructions and for electronic delivery of information up until 11:59 P.M. Eastern Time the day before the meeting date. Have your proxy card in hand when you access the web site and follow the instructions to obtain your records and to create an electronic voting instruction form.

Electronic Delivery of Future PROXY MATERIALS

If you would like to reduce the costs incurred by our company in mailing proxy materials, you can consent to receiving all future proxy statements, proxy cards and annual reports electronically via e-mail or the Internet. To sign up for electronic delivery, please follow the instructions above to vote using the Internet and, when prompted, indicate that you agree to receive or access proxy materials electronically in future years.

VOTE BY PHONE - 1-800-690-6903

Use any touch-tone telephone to transmit your voting instructions up until 11:59 P.M. Eastern Time the day before the meeting date. Have your proxy card in hand when you call and then follow the instructions.

VOTE BY MAIL

Mark, sign and date your proxy card and return it in the postage-paid envelope we have provided or return it to Vote Processing, c/o Broadridge, 51 Mercedes Way, Edgewood, NY 11717.

TO VOTE, MARK BLOCKS BELOW IN BLUE OR BLACK INK AS FOLLOWS:

KEEP THIS PORTION FOR YOUR RECORDS

DETACH AND RETURN THIS PORTION ONLY

THIS PROXY CARD IS
VALID ONLY WHEN SIGNED AND DATED.

The Board of Directors recommends you vote FOR the following:

1. Election of Directors

	Nominees	**For**	**Against**	**Abstain**
1A	Clarence L. Granger	¨	¨	¨
1B	James P. Scholhamer	¨	¨	¨
1C	David T. ibnAle	¨	¨	¨
1D	Leonid Mezhvinsky	¨	¨	¨
1E	Emily Maddox Liggett	¨	¨	¨
1F	Barbara V. Scherer	¨	¨	¨
		¨	¨	¨

For address change/comments, mark here. (see reverse for instructions) ¨

Please sign exactly as your name(s) appear(s) hereon. When signing as attorney, executor, administrator, or other fiduciary, please give full title as such. Joint owners should each sign personally. All holders must sign. If a corporation or partnership, please sign in full corporate or partnership name, by authorized officer.

The Board of Directors recommends you vote FOR proposals 2 and 3.	**For**	**Against**	**Abstain**
2. Ratification of the appointment of Moss Adams LLP as the independent registered public accounting firm of Ultra Clean Holdings, Inc. for fiscal 2016.	¨	¨	¨
3. To approve, by an advisory vote, the compensation of Ultra Clean s named executive officers for fiscal year 2015 as disclosed in our proxy statement for the 2016 Annual Meeting of Stockholders.	¨	¨	¨

NOTE: Conduct other business that may properly come before the annual meeting or any adjournment or postponement thereof

Signature [PLEASE SIGN WITHIN BOX]	Date	Signature (Joint Owners)	Date

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ULTRA CLEAN HOLDINGS, INC. ANNUAL

MEETING OF STOCKHOLDERS

Thursday, May 26, 2016

12:30 p.m. Pacific Daylight Time

Davis Polk & Wardwell LLP

1600 El Camino Real

Menlo Park, CA 94025

Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting: The Notice & Proxy Statement, Annual Report/10-K is/are available at www.proxyvote.com

ULTRA CLEAN HOLDINGS, INC.

26462 Corporate Avenue

Hayward, CA 94545

This proxy is solicited by the Board of Directors for use at the Annual Meeting on Thursday, May 26, 2016. This proxy will be voted as directed, or if no choice is specified, the proxy will be voted FOR Items 1, 2, and 3.

By signing the proxy, you revoke all prior proxies and appoint James P. Scholhamer and Kevin C. Eichler, and each of them acting in the absence of the other, with full power of substitution, to vote your shares on the matters shown on the reverse side and in their discretion on any other matters which may properly come before the Annual Meeting and all adjournments.

Address change/comments:

(If you noted any Address Changes and/or Comments above, please mark corresponding box on the reverse side.)

Continued and to be signed on reverse side