UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 25, 2021

OR

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

For the transition period from __ to __

Commission File Number: 001-37961

ICHOR HOLDINGS, LTD.
(Exact Name of Registrant as Specified in its Charter)

Cayman Islands	**Not Applicable**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
3185 Laurelview Ct. Fremont, CA	**94538**
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (510) 897-5200

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Ordinary Shares, par value $0.0001	ICHR	The NASDAQ Stock Market LLC

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

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

Large accelerated filer	☐	Accelerated filer	☒
Non-accelerated filer	☐	Small reporting company	☐
Emerging Growth Company	☒		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☒

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

As of July 29, 2021, the registrant had 28,358,970 ordinary shares, $0.0001 par value per share, outstanding.

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PART I

ITEM 1. FINANCIAL STATEMENTS (UNAUDITED)

ICHOR HOLDINGS, LTD.
Consolidated Balance Sheets
(dollars in thousands, except per share amounts)
(unaudited)

	June 25, 2021	December 25, 2020
Assets		
Current assets:		
Cash and cash equivalents	$ 141,714	$ 252,899
Marketable securities	104,951	—
Accounts receivable, net	119,108	100,977
Inventories	166,256	134,756
Prepaid expenses and other current assets	8,491	7,082
Total current assets	540,520	495,714
Property and equipment, net	52,374	41,811
Operating lease right-of-use assets	9,333	10,088
Other noncurrent assets	7,036	5,503
Deferred tax assets, net	5,235	6,324
Intangible assets, net	33,064	39,845
Goodwill	174,887	174,887
Total assets	$ 822,449	$ 774,172
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	$ 149,844	$ 116,664
Accrued liabilities	19,820	20,792
Other current liabilities	14,216	10,700
Current portion of long-term debt	8,750	8,750
Current portion of lease liabilities	5,108	5,128
Total current liabilities	197,738	162,034
Long-term debt, less current portion, net	157,630	191,522
Lease liabilities, less current portion	4,497	5,272
Deferred tax liabilities, net	109	109
Other non-current liabilities	3,992	3,546
Total liabilities	363,966	362,483
Shareholders' equity:		
Preferred shares ($0.0001 par value; 20,000,000 shares authorized; zero shares issued and outstanding)	—	—
Ordinary shares ($0.0001 par value; 200,000,000 shares authorized; 28,326,559 and 27,907,077 shares outstanding, respectively; 32,763,998 and 32,344,516 shares issued, respectively)	3	3
Additional paid in capital	408,626	399,311
Treasury shares at cost (4,437,439 shares)	(91,578)	(91,578)
Accumulated other comprehensive loss	(24)	—
Retained earnings	141,456	103,953
Total shareholders' equity	458,483	411,689
Total liabilities and shareholders' equity	$ 822,449	$ 774,172

See accompanying notes.

ICHOR HOLDINGS, LTD.
Consolidated Statements of Operations
(dollars in thousands, except per share amounts)
(unaudited)

	Three Months Ended		Six Months Ended	
	June 25, 2021	June 26, 2020	June 25, 2021	June 26, 2020
Net sales	$ 282,308	$ 221,564	$ 546,874	$ 441,592
Cost of sales	234,955	192,302	460,009	383,556
Gross profit	47,353	29,262	86,865	58,036
Operating expenses:				
Research and development	4,049	3,509	7,564	6,831
Selling, general, and administrative	14,699	13,113	29,048	29,731
Amortization of intangible assets	3,390	3,336	6,781	6,670
Total operating expenses	22,138	19,958	43,393	43,232
Operating income	25,215	9,304	43,472	14,804
Interest expense	1,591	2,302	3,510	4,676
Other expense (income), net	22	2	207	(29)
Income before income taxes	23,602	7,000	39,755	10,157
Income tax expense (benefit)	737	189	2,252	(53)
Net income	$ 22,865	$ 6,811	$ 37,503	$ 10,210
Net income per share:				
Basic	$ 0.81	$ 0.30	$ 1.33	$ 0.45
Diluted	$ 0.79	$ 0.30	$ 1.30	$ 0.44
Shares used to compute net income per share:				
Basic	28,180,821	22,836,400	28,092,535	22,786,782
Diluted	29,092,521	23,066,976	28,942,902	23,099,946

See accompanying notes.

ICHOR HOLDINGS, LTD.
Consolidated Statements of Comprehensive Income
(in thousands)
(unaudited)

	Three Months Ended		Six Months Ended	
	June 25, 2021	June 26, 2020	June 25, 2021	June 26, 2020
Net income	$ 22,865	$ 6,811	$ 37,503	$ 10,210
Other comprehensive loss, net of tax:				
Unrealized loss on available-for-sale marketable securities	(24)	—	(24)	—
Comprehensive income	$ 22,841	$ 6,811	$ 37,479	$ 10,210

See accompanying notes.

ICHOR HOLDINGS, LTD.
Consolidated Statements of Shareholders' Equity
(dollars in thousands)
(unaudited)

For the three months ending June 25, 2021	Ordinary Shares		Additional Paid-In	Treasury Shares		Accumulated Other Comprehensive	Retained	Total Shareholders'
	Shares	Amount	Capital	Shares	Amount	Loss	Earnings	Equity
Balance at March 26, 2021	28,070,251	$ 3	$ 404,046	4,437,439	$ (91,578)	$ —	$ 118,591	$ 431,062
Ordinary shares issued from exercise of stock options	179,131	—	3,150	—	—	—	—	3,150
Ordinary shares issued from vesting of restricted share units	77,177	—	(1,251)	—	—	—	—	(1,251)
Share-based compensation expense	—	—	2,681	—	—	—	—	2,681
Other comprehensive loss	—	—	—	—	—	(24)	—	(24)
Net income	—	—	—	—	—	—	22,865	22,865
Balance at June 25, 2021	28,326,559	$ 3	$ 408,626	4,437,439	$ (91,578)	$ (24)	$ 141,456	$ 458,483

For the six months ending June 25, 2021	Ordinary Shares		Additional Paid-In	Treasury Shares		Accumulated Other Comprehensive	Retained	Total Shareholders'
	Shares	Amount	Capital	Shares	Amount	Loss	Earnings	Equity
Balance at December 25, 2020	27,907,077	$ 3	$ 399,311	4,437,439	$ (91,578)	$ —	$ 103,953	$ 411,689
Ordinary shares issued from exercise of stock options	284,731	—	5,531	—	—	—	—	5,531
Ordinary shares issued from vesting of restricted share units	107,600	—	(1,918)	—	—	—	—	(1,918)
Ordinary shares issued from employee share purchase plan	27,151	—	606	—	—	—	—	606
Share-based compensation expense	—	—	5,096	—	—	—	—	5,096
Other comprehensive loss	—	—	—	—	—	(24)	—	(24)
Net income	—	—	—	—	—	—	37,503	37,503
Balance at June 25, 2021	28,326,559	$ 3	408,626	4,437,439	$ (91,578)	$ (24)	$ 141,456	$ 458,483

See accompanying notes.

ICHOR HOLDINGS, LTD.
Consolidated Statements of Shareholders' Equity (continued)
(dollars in thousands)
(unaudited)

For the three months ending June 26, 2020	Ordinary Shares		Additional Paid-In Capital	Treasury Shares		Retained Earnings	Total Shareholders' Equity
	Shares	Amount		Shares	Amount		
Balance at March 27, 2020	22,806,679	$ 2	$ 247,023	4,437,439	$ (91,578)	$ 74,073	$ 229,520
Ordinary shares issued from exercise of stock options	8,797	—	111	—	—	—	111
Ordinary shares issued from vesting of restricted share units	53,523	—	(393)	—	—	—	(393)
Share-based compensation expense	—	—	2,141	—	—	—	2,141
Net income	—	—	—	—	—	6,811	6,811
Balance at June 26, 2020	22,868,999	$ 2	$ 248,882	4,437,439	$ (91,578)	$ 80,884	$ 238,190

For the six months ending June 26, 2020	Ordinary Shares		Additional Paid-In Capital	Treasury Shares		Retained Earnings	Total Shareholders' Equity
	Shares	Amount		Shares	Amount		
Balance at December 27, 2019	22,618,708	$ 2	$ 242,318	4,437,439	$ (91,578)	$ 70,674	$ 221,416
Ordinary shares issued from exercise of stock options	122,336	—	2,594	—	—	—	2,594
Ordinary shares issued from vesting of restricted share units	111,435	—	(1,386)	—	—	—	(1,386)
Ordinary shares issued from employee share purchase plan	16,520	—	350	—	—	—	350
Share-based compensation expense	—	—	5,006	—	—	—	5,006
Net income	—	—	—	—	—	10,210	10,210
Balance at June 26, 2020	22,868,999	$ 2	$ 248,882	4,437,439	$ (91,578)	$ 80,884	$ 238,190

See accompanying notes.

ICHOR HOLDINGS, LTD.
Consolidated Statements of Cash Flows
(in thousands)
(unaudited)

	Six Months Ended	
	June 25, 2021	June 26, 2020
Cash flows from operating activities:		
Net income	$ 37,503	$ 10,210
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	11,464	11,662
Share-based compensation	5,096	5,006
Deferred income taxes	1,089	384
Amortization of debt issuance costs	483	484
Gain on sale of asset disposal group	(504)	—
Other	59	—
Changes in operating assets and liabilities, net of acquisitions:		
Accounts receivable, net	(18,131)	(20,010)
Inventories	(31,500)	(22,153)
Prepaid expenses and other assets	(478)	563
Accounts payable	33,302	(13,717)
Accrued liabilities	(952)	3,138
Other liabilities	1,458	(750)
Net cash provided by (used in) operating activities	38,889	(25,183)
Cash flows from investing activities:		
Capital expenditures	(15,369)	(5,665)
Purchase of marketable securities	(105,033)	—
Proceeds from sale of property and equipment	504	—
Net cash used in investing activities	(119,898)	(5,665)
Cash flows from financing activities:		
Issuance of ordinary shares under share-based compensation plans	6,117	2,966
Employees' taxes paid upon vesting of restricted share units	(1,918)	(1,386)
Borrowings on revolving credit facility	—	30,000
Repayments on revolving credit facility	(30,000)	—
Repayments on term loan	(4,375)	(4,375)
Net cash provided by (used in) financing activities	(30,176)	27,205
Net decrease in cash	(111,185)	(3,643)
Cash at beginning of period	252,899	60,612
Cash at end of period	$ 141,714	$ 56,969
Supplemental disclosures of cash flow information:		
Cash paid during the period for interest	$ 3,341	$ 4,240
Cash paid during the period for taxes, net of refunds	$ 1,272	$ 34
Supplemental disclosures of non-cash activities:		
Capital expenditures included in accounts payable	$ 246	$ 1,191
Right-of-use assets obtained in exchange for new operating lease liabilities	$ 1,709	$ 328

See accompanying notes.

Note 1 – Basis of Presentation and Selected Significant Accounting Policies

Basis of Presentation

These consolidated unaudited financial statements have been prepared in accordance with generally accepted accounting principles in the U.S. ("GAAP"). All intercompany balances and transactions have been eliminated upon consolidation. All dollar figures presented in tables in the notes to consolidated financial statements are in thousands, except per share amounts. Certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted as permitted by the SEC's rules and regulations for interim reporting. These consolidated financial statements should be read in conjunction with our audited financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 25, 2020.

Year End

We use a 52- or 53-week fiscal year ending on the last Friday in December. The three months ended June 25, 2021 and June 26, 2020 were both 13 weeks. References to the second quarter of 2021 and 2020 refer to the three-month periods then ended. References to fiscal year 2021 and 2020 refer to our fiscal years ending December 31, 2021 and December 25, 2020, respectively.

Use of Estimates

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting periods presented. We base our estimates and judgments on historical experience and on various other assumptions that we believe are reasonable under the circumstances. Actual results could differ from the estimates made by management. Significant estimates include inventory valuation, uncertain tax positions, fair value assigned to stock options granted, and impairment analysis for both definite-lived intangible assets and goodwill.

Cash and Cash Equivalents and Marketable Securities

Cash and cash equivalents consist of deposits and financial instruments which are readily convertible into cash and have original maturities of 90 days or less at the time of acquisition. Marketable securities consist primarily of highly liquid investments with maturities of greater than 90 days when purchased. We classify our marketable securities as available-for-sale and, accordingly, report them at fair value with the related unrealized gains and losses included in accumulated other comprehensive income (loss). Any unrealized losses which are considered to be other-than-temporary are recorded in other income (expense), net. Realized gains and losses on the sale of marketable securities are determined using the specific-identification method and recorded in other income (expense), net.

All of our available-for-sale investments are subject to a periodic impairment review. If an available-for-sale debt security's fair value is less than its amortized cost basis, then we evaluate whether the decline is the result of a credit loss, in which case an impairment is recorded through an allowance for credit losses. Unrealized gains and losses not attributable to credit losses are included, net of tax, in accumulated other comprehensive income (loss). We have not record an allowance for credit losses during 2021.

Revenue Recognition

We recognize revenue when control of promised goods or services is transferred to our customers, in an amount that reflects the consideration we expect to be entitled to in exchange for those goods or services. This amount is recorded as net sales in our consolidated statements of operations.

Transaction price – In most of our contracts, prices are generally determined by a customer-issued purchase order and generally remain fixed over the duration of the contract. Certain contracts contain variable consideration, including early-payment discounts and rebates. When a contract includes variable consideration, we evaluate the estimate of the variable consideration to determine whether the estimate needs to be constrained; therefore, we include the variable consideration in the transaction price only to the extent that it is probable that a significant reversal will not occur. Variable consideration estimates are updated at each reporting date. Historically, we have not incurred significant costs to obtain a contract. All amounts billed to a customer relating to shipping and handling are classified as net sales, while all costs incurred by us for shipping and handling are classified as cost of sales.

Performance obligations – Substantially all of our performance obligations pertain to promised goods ("products"), which are primarily comprised of fluid delivery subsystems, weldments, and other components. Most of our contracts contain a single performance obligation and are generally completed within twelve months. Product sales are recognized at a point-in-time, generally upon delivery, as such term is defined within the contract, as that is when control of the promised good has transferred. Products are covered by a standard assurance warranty, generally extended for a period of one to two years depending on the customer, which promises that delivered products conform to contract specifications. As such, we account for such warranties under ASC 460, *Guarantees*, and not as a separate performance obligation.

Contract balances – Accounts receivable represents our unconditional right to receive consideration from our customers. Accounts receivable are carried at invoice price less an estimate for doubtful accounts and estimated payment discounts. Payment terms vary by customer but are generally due within 15-60 days. Historically, we have not incurred significant payment issues with our customers. We had no significant contract assets or liabilities on our consolidated balance sheets in any of the periods presented.

Accounting Pronouncements Recently Adopted

In December 2019, the FASB issued ASU 2019-12, *Income Taxes (Topic 740) – Simplifying the Accounting for Income Taxes*, as part of its initiative to reduce complexity in accounting standards. The amendments in the ASU include removing exceptions to incremental intraperiod tax allocation of losses and gains from different financial statement components, exceptions to the method of recognizing income taxes on interim period losses, and exceptions to deferred tax liability recognition related to foreign subsidiary investments. In addition, the ASU requires that entities recognize franchise tax based on an incremental method and requires an entity to evaluate the accounting for step-ups in the tax basis of goodwill as inside or outside of a business combination. We adopted the standard on the first day of 2021, and it did not have a significant impact on our financial statements.

Note 2 – Inventories

Inventories consist of the following:

	June 25, 2021	December 25, 2020
Raw materials	$ 108,615	$ 88,015
Work in process	48,524	38,184
Finished goods	21,929	21,299
Excess and obsolete adjustment	(12,812)	(12,742)
Total inventories	$ 166,256	$ 134,756

Note 3 – Property and Equipment and Other Noncurrent Assets

Property and equipment consist of the following:

	June 25, 2021	December 25, 2020
Machinery	$ 39,186	$ 37,196
Leasehold improvements	30,075	29,616
Computer software, hardware, and equipment	6,807	6,501
Office furniture, fixtures and equipment	1,030	1,166
Vehicles	90	75
Construction-in-process	14,996	5,483
	92,184	80,037
Less accumulated depreciation	(39,810)	(38,226)
Total property and equipment, net	$ 52,374	$ 41,811

Depreciation expense was $2.4 million and $2.6 million for the second quarter of 2021 and 2020, respectively, and $4.7 million and $5.0 million for the six months ended June 25, 2021 and June 26, 2020, respectively.

Cloud Computing Implementation Costs

We capitalize implementation costs associated with hosting arrangement that are service contracts. These costs are recorded to prepaid expenses or other noncurrent assets. To-date, these costs are those incurred to implement a new company-wide ERP system.

The following table summarizes capitalized cloud computing implementation costs:

Capitalized cloud computing implementation costs as of December 25, 2020	$	4,366
Costs capitalized during the period		1,547
Capitalized costs amortized during the period		—
Capitalized cloud computing implementation costs as of June 25, 2021	$	5,913

Note 4 – Intangible Assets

Definite-lived intangible assets consist of the following:

	June 25, 2021				
	Gross value	Accumulated amortization	Accumulated impairment charges	Carrying amount	Weighted average useful life
Trademarks	$ 9,690	$ (9,200)	$ —	$ 490	10.0 years
Customer relationships	84,169	(59,702)	—	24,467	7.7 years
Developed technology	11,047	(2,940)	—	8,107	10.0 years
Total intangible assets	$ 104,906	$ (71,842)	$ —	$ 33,064	

	December 25, 2020				
	Gross value	Accumulated amortization	Accumulated impairment charges	Carrying amount	Weighted average useful life
Trademarks	$ 9,690	$ (8,717)	$ —	$ 973	10.0 years
Customer relationships	84,169	(53,946)	—	30,223	7.8 years
Developed technology	11,047	(2,398)	—	8,649	10.0 years
Total intangible assets	$ 104,906	$ (65,061)	$ —	$ 39,845	

Note 5 – Leases

Operating lease ROU assets and liabilities are recognized at the commencement date based on the present value of lease payments over the lease term. For purposes of calculating operating lease ROU assets and operating lease liabilities, we use the non-cancellable lease term plus options to extend that we are reasonably certain to take. Lease expense for operating lease payments is recognized on a straight-line basis over the lease term. Our leases generally do not provide an implicit rate. As such, we use our incremental borrowing rate based on the information available at commencement date in determining the present value of lease payments.

We lease facilities under various non-cancellable operating leases expiring through 2026. In addition to base rental payments, we are generally responsible for our proportionate share of operating expenses, including facility maintenance, insurance, and property taxes. As these amounts are variable, they are not included in lease liabilities. As of June 25, 2021, we had zero operating lease executed for which the rental period had not yet commenced.

The components of lease expense are as follows:

	Three Months Ended		Six Months Ended	
	June 25, 2021	June 26, 2020	June 25, 2021	June 26, 2020
Operating lease cost	$ 1,391	$ 1,332	$ 2,772	$ 2,652

Supplemental cash flow information related to leases is as follows:

	Six Months Ended	
	June 25, 2021	June 26, 2020
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	$ 2,691	$ 2,678

Supplemental balance sheet information related to leases is as follows:

	June 25, 2021	June 26, 2020
Weighted-average remaining lease term of operating leases	2.4 years	2.7 years
Weighted-average discount rate of operating leases	4.2%	4.5%

Future minimum lease payments under non-cancelable leases as of June 25, 2021 are as follows:

2021, remaining	$ 2,606
2022	4,711
2023	1,741
2024	675
2025	304
Thereafter	96
Total future minimum lease payments	10,133
Less imputed interest	(528)
Total lease liabilities	$ 9,605

Note 6 – Income Taxes

Income tax information for the periods reported are as follows:

	Three Months Ended		Six Months Ended	
	June 25, 2021	June 26, 2020	June 25, 2021	June 26, 2020
Income tax expense (benefit)	$ 737	$ 189	$ 2,252	$ (53)
Income before income taxes	$ 23,602	$ 7,000	$ 39,755	$ 10,157
Effective income tax rate	3.1%	2.7%	5.7%	-0.5%

Our effective tax rate for the three and six months ended June 25, 2021 differs from the statutory rate due to taxes on foreign income that differ from the U.S. tax rate, including a tax holiday in Singapore, and the impact of share-based compensation activity during the quarter.

Our effective tax rate for the three and six months ended June 26, 2020 differs from the statutory rate due to taxes on foreign income that differ from the U.S. tax rate, excess tax benefits from share-based compensation, and the impact of the CARES Act.

The ending balance for the unrecognized tax benefits for uncertain tax positions was approximately $3.2 million at June 25, 2021. The related interest and penalties were insignificant. The uncertain tax positions that are reasonably possible to decrease in the next twelve months are insignificant.

As of June 25, 2021, we were not under examination by tax authorities.

Note 7 – Employee Benefit Programs

401(k) Plan

We sponsor a 401(k) plan available to employees of our U.S.-based subsidiaries. Participants may make salary deferral contributions not to exceed 50% of a participant's annual compensation or the maximum amount otherwise allowed by law. Eligible employees receive a discretionary matching contribution equal to 50% of a participant's deferral, up to an annual matching maximum of 4% of a participant's annual compensation. Matching contributions were $0.5 million and $0.5 million for the second quarter of 2021 and 2020, respectively and $1.1 million and $1.0 million for the six months ended June 25, 2021 and June 26, 2020, respectively.

Note 8 – Long-Term Debt

Long-term debt consists of the following:

	June 25, 2021	December 25, 2020
Term loan	$ 148,750	$ 153,125
Revolving credit facility	19,162	49,162
Total principal amount of debt	167,912	202,287
Less unamortized debt issuance costs	(1,532)	(2,015)
Total debt, net	166,380	200,272
Less current portion	(8,750)	(8,750)
Total long-term debt, less current portion, net	$ 157,630	$ 191,522

On February 15, 2018, we entered into an amended and restated credit agreement, which includes a $175.0 million term loan and a $125.0 million revolving credit facility. We incurred debt issuance costs of $2.1 million in connection with the amendment. The amendment did not meet the definition of an extinguishment and was accounted for as a modification. Term loan principal payments of $2.2 million are due on a quarterly basis. The credit facilities mature on February 15, 2023.

Interest is charged at either the Base Rate or the Eurodollar rate (as such terms are defined in the credit agreement) at our option, plus an applicable margin. The Base Rate is equal to the higher of i) the Prime Rate, ii) the Federal Funds Rate plus 0.5%, or iii) the Eurodollar Rate plus 1.00%. The Eurodollar rate is equal to LIBOR, subject to a 1.00% floor for the term loan. The applicable margin on Base Rate and Eurodollar Rate loans is 0.75-1.50% and 1.75-2.50% per annum, respectively, depending on our leverage ratio. We are also charged a commitment fee of 0.20%-0.35% on the unused portion of our revolving credit facility. Base Rate interest payments and commitment fees are due quarterly. Eurodollar interest payments are due on the last day of the applicable interest period. At June 25, 2021, the term loan and revolving credit facility bore interest at the Eurodollar rate option of 3.00% and 2.03%, respectively.

Note 9 – Share-Based Compensation

The 2016 Omnibus Incentive Plan (the "2016 Plan") provides for grants of share-based awards to employees, directors, and consultants. Awards may be in the form of stock options ("options"), tandem and non-tandem stock appreciation rights, restricted share awards or restricted share units ("RSUs"), performance awards, and other share-based awards. Forfeited or expired awards are returned to the incentive plan pool for future grants. Awards generally vest over four years, 25% on the first anniversary of the date of grant and quarterly thereafter over the remaining 3 years. Upon vesting of RSUs, employees may elect to have shares withheld to cover statutory minimum withholding taxes. Shares withheld are not reflected as an issuance of ordinary shares within our consolidated statements of shareholders' equity, as the shares were never issued, and the associated tax payments are reflected as financing activities within our consolidated statements of cash flows.

Share-based compensation expense across all plans for options, RSUs, and employee share purchase rights was $2.7 million and $2.1 million for the second quarter of 2021 and 2020, respectively, and $5.1 million and $5.0 million for the six months ended June 25, 2021 and June 26, 2020, respectively.

Stock Options

The following table summarizes option activity:

	Number of Stock Options				
	Service condition	Performance condition	Weighted average exercise price per share	Weighted average remaining contractual term	Aggregate intrinsic value (in thousands)
Outstanding, December 25, 2020	1,325,826	65,908	$ 22.22		
Granted	—	—	$ —		
Exercised	(218,823)	(65,908)	$ 19.43		
Forfeited or expired	(38,614)	—	$ 20.71		
Outstanding, June 25, 2021	1,068,389	—	$ 23.03	4.3 years	$ 31,597
Exercisable, June 25, 2021	577,984	—	$ 22.40	3.8 years	$ 17,455

Restricted Share Units

The following table summarizes RSU activity:

	Number of Restricted Share Units			
	Service condition	Performance condition	Market condition	Weighted average grant date fair value per share
Unvested, December 25, 2020	564,626	—	—	$ 24.09
Granted	204,574	9,716	14,572	$ 50.18
Vested	(150,079)	—	—	$ 24.28
Forfeited	(17,617)	—	—	$ 23.85
Unvested, June 25, 2021	601,504	9,716	14,572	$ 33.59

Employee Share Purchase Plan

The 2017 Employee Stock Purchase Plan (the "2017 ESPP") grants employees the ability to designate a portion of their base-pay to purchase ordinary shares at a price equal to 85% of the fair market value of our ordinary shares on the first or last day of each 6 month purchase period. Purchase periods begin on January 1 or July 1 and end on June 30 or December 31, or the next business day if such date is not a business day. Shares are purchased on the last day of the purchase period.

During the six months ended June 25, 2021, 27,151 ordinary shares were purchased by eligible employees under the 2017 ESPP. As of June 25, 2021, approximately 2.4 million ordinary shares remain available for purchase under the 2017 ESPP.

Note 10 – Earnings per Share

The following table sets forth the computation of basic and diluted earnings per share and a reconciliation of the numerator and denominator used in the calculation:

	Three Months Ended		Six Months Ended	
	June 25, 2021	June 26, 2020	June 25, 2021	June 26, 2020
Numerator:				
Net income	$ 22,865	$ 6,811	$ 37,503	$ 10,210
Denominator:				
Basic weighted average ordinary shares outstanding	28,180,821	22,836,400	28,092,535	22,786,782
Dilutive effect of options	601,871	191,526	550,059	255,523
Dilutive effect of RSUs	298,499	36,481	288,978	55,072
Dilutive effect of ESPP	11,330	2,569	11,330	2,569
Diluted weighted average ordinary shares outstanding	29,092,521	23,066,976	28,942,902	23,099,946
Earnings per share:				
Net income:				
Basic	$ 0.81	$ 0.30	$ 1.33	$ 0.45
Diluted	$ 0.79	$ 0.30	$ 1.30	$ 0.44

A combined total of approximately 185,000, 1,790,000, 185,000, and 1,555,000 potentially dilutive options and RSUs were excluded from the calculation of net income per share for the three and six months ended June 25, 2021 and June 26, 2020, respectively, because including them would have been antidilutive under the treasury stock method.

Note 11 – Fair Value Measurements

We measure certain assets and liabilities, including cash equivalents and marketable securities, at fair value. Whenever possible, the fair values of our financial assets and liabilities are determined using quoted market prices of identical securities or quoted market prices of similar securities from active markets. The three levels of inputs that may be used to measure fair value are as follows:

- Level 1: Quoted prices in active markets for identical assets.
- Level 2: Observable market-based inputs or unobservable inputs that are corroborated by market data.
- Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

As of June 25, 2021, assets measured at fair value on a recurring basis were as follows:

	Level 1	Level 2	Level 3	Total
Cash equivalents:				
Money market funds	$ 28,774	$ —	$ —	$ 28,774
Commercial paper	—	5,999	—	5,999
Marketable securities:				
U.S. treasuries	52,812	—	—	52,812
Commercial paper	—	41,976	—	41,976
Corporate bonds	—	10,163	—	10,163
Total assets	$ 81,586	$ 58,138	$ —	$ 139,724

The difference between amortized cost and fair value of marketable securities, due to unrealized gains and losses, was immaterial and is recorded as a component of accumulated other comprehensive income (loss). We did not have any other-than-temporary unrealized gains or losses at either period-end included in these financial statements.

Note 12 – Segment Information

Our Chief Operating Decision Maker, the Chief Executive Officer, reviews our results of operations on a consolidated level and executive staff is structured by function rather than by product category. Therefore, we operate in one operating segment. Key resources, decisions, and assessment of performance are also analyzed on a company-wide level.

Foreign operations are conducted primarily through our wholly owned subsidiaries in Singapore and Malaysia. Our principal markets include North America, Asia and, to a lesser degree, Europe. Sales by geographic area represent sales to unaffiliated customers.

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

	Three Months Ended		Six Months Ended	
	June 25, 2021	June 26, 2020	June 25, 2021	June 26, 2020
United States of America	$ 137,747	$ 117,692	$ 276,881	$ 238,533
Singapore	101,214	74,327	187,538	147,536
Europe	22,439	18,536	39,769	33,495
Other	20,908	11,009	42,686	22,028
Total net sales	$ 282,308	$ 221,564	$ 546,874	$ 441,592

Foreign long-lived assets, exclusive of deferred tax assets, were $39.8 million and $31.5 million at June 25, 2021 and December 25, 2020, respectively.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion and analysis of our financial condition and results of operations in conjunction with our consolidated unaudited financial statements and related notes included elsewhere in this report. The following discussion contains forward-looking statements based upon our current plans, expectations, and beliefs that involve risks and uncertainties. Our actual results may differ materially from those anticipated in these forward-looking statements. Factors that could cause or contribute to these differences include those discussed below and elsewhere in this report, particularly in "Risk Factors."

Overview

We are a leader in the design, engineering, and manufacturing of critical fluid delivery subsystems and components for semiconductor capital equipment. Our product offerings include gas and chemical delivery systems and subsystems, collectively known as fluid delivery systems and subsystems, which are key elements of the process tools used in the manufacturing of semiconductor devices. Our gas delivery subsystems deliver, monitor, and control precise quantities of the specialized gases used in semiconductor manufacturing processes such as etch and deposition. Our chemical delivery systems and subsystems precisely blend and dispense the reactive liquid chemistries used in semiconductor manufacturing processes such as chemical-mechanical planarization, electroplating, and cleaning. We also manufacture precision machined components, weldments, and proprietary products for use in fluid delivery systems for direct sales to our customers. This vertically integrated portion of our business is primarily focused on metal and plastic parts that are used in gas and chemical systems, respectively.

Fluid delivery subsystems ensure accurate measurement and uniform delivery of specialty gases and chemicals at critical steps in the semiconductor manufacturing processes. Any malfunction or material degradation in fluid delivery reduces yields and increases the likelihood of manufacturing defects in these processes. Most OEMs outsource all or a portion of the design, engineering, and manufacturing of their gas delivery subsystems to a few specialized suppliers, including us. Additionally, many OEMs are also increasingly outsourcing the design, engineering, and manufacturing of their chemical delivery subsystems due to the increased fluid expertise required to manufacture these subsystems. Outsourcing these subsystems has allowed OEMs to leverage the suppliers' highly specialized engineering, design, and production skills while focusing their internal resources on their own value-added processes. We believe that this outsourcing trend has enabled OEMs to reduce their costs and development time, as well as provide growth opportunities for specialized subsystems suppliers like us.

We have a global footprint with production facilities in California, Minnesota, Oregon, Texas, Singapore, Malaysia, the United Kingdom, Korea, and Mexico.

The following summarizes key financial information for the periods indicated:

	Three Months Ended		Six Months Ended	
	June 25, 2021	June 26, 2020	June 25, 2021	June 26, 2020
	(dollars in thousands)			
Net sales	$ 282,308	$ 221,564	$ 546,874	$ 441,592
Gross profit	$ 47,353	$ 29,262	$ 86,865	$ 58,036
Gross margin	16.8%	13.2%	15.9%	13.1%
Operating expenses	$ 22,138	$ 19,958	$ 43,393	$ 43,232
Operating income	$ 25,215	$ 9,304	$ 43,472	$ 14,804
U.S. GAAP net income	$ 22,865	$ 6,811	$ 37,503	$ 10,210
Non-GAAP net income (1)	$ 26,187	$ 12,569	$ 47,912	$ 24,627
U.S. GAAP diluted EPS	$ 0.79	$ 0.30	$ 1.30	$ 0.44
Non-GAAP diluted EPS (1)	$ 0.90	$ 0.54	$ 1.66	$ 1.07

(1) Please see "Non-GAAP Results" within Item 2 of this report for a reconciliation of U.S. GAAP net income to Non-GAAP net income.

COVID-19 Pandemic and Market Conditions Update

The COVID-19 pandemic and related economic repercussions have created, and are expected to continue to create, significant volatility, uncertainty, and turmoil in our industry. While our facilities are currently not subject to any site-wide government shutdowns, "social distancing" guidelines are resulting, and will continue to result in, reduced factory output. In addition, an increase in direct costs within our factories associated with employee personal protective equipment ("PPE"), facility cleaning and layout changes, together with increases in logistics costs and employee labor costs, as well as other operating inefficiencies have resulted in, and may continue to result in, lower revenues and operating margins. The extent and duration of these impacts cannot be specifically quantified given the dynamic nature and breadth of the pandemic's impact on our operations and that of our customers and suppliers.

Results of Operations

The following table sets forth our unaudited results of operations for the periods presented. The period-to-period comparison of results is not necessarily indicative of results for future periods.

	Three Months Ended		Six Months Ended	
	June 25, 2021	June 26, 2020	June 25, 2021	June 26, 2020
	(in thousands)			
Consolidated Statements of Operations Data:				
Net sales	$ 282,308	$ 221,564	$ 546,874	$ 441,592
Cost of sales	234,955	192,302	460,009	383,556
Gross profit	47,353	29,262	86,865	58,036
Operating expenses:				
Research and development	4,049	3,509	7,564	6,831
Selling, general, and administrative	14,699	13,113	29,048	29,731
Amortization of intangible assets	3,390	3,336	6,781	6,670
Total operating expenses	22,138	19,958	43,393	43,232
Operating income	25,215	9,304	43,472	14,804
Interest expense	1,591	2,302	3,510	4,676
Other expense (income), net	22	2	207	(29)
Income before income taxes	23,602	7,000	39,755	10,157
Income tax expense (benefit)	737	189	2,252	(53)
Net income	$ 22,865	$ 6,811	$ 37,503	$ 10,210

The following table sets forth our unaudited results of operations as a percentage of our total sales for the periods presented.

	Three Months Ended		Six Months Ended	
	June 25, 2021	June 26, 2020	June 25, 2021	June 26, 2020
Consolidated Statements of Operations Data:				
Net sales	100.0	100.0	100.0	100.0
Cost of sales	83.2	86.8	84.1	86.9
Gross profit	16.8	13.2	15.9	13.1
Operating expenses:				
Research and development	1.4	1.6	1.4	1.5
Selling, general, and administrative	5.2	5.9	5.3	6.7
Amortization of intangible assets	1.2	1.5	1.2	1.5
Total operating expenses	7.8	9.0	7.9	9.8
Operating income	8.9	4.2	7.9	3.4
Interest expense	0.6	1.0	0.6	1.1
Other expense (income), net	0.0	0.0	0.0	0.0
Income before income taxes	8.4	3.2	7.3	2.3
Income tax expense (benefit)	0.3	0.1	0.4	0.0
Net income	8.1	3.1	6.9	2.3

Comparison of the three and six months ended June 25, 2021 and June 26, 2020

Net Sales

	Three Months Ended		Change		Six Months Ended		Change	
	June 25, 2021	June 26, 2020	Amount	%	June 25, 2021	June 26, 2020	Amount	%
				(dollars in thousands)				
Net sales	$ 282,308	$ 221,564	$ 60,744	27.4%	$ 546,874	$ 441,592	$ 105,282	23.8%

The increase in net sales from the three and six months ended June 26, 2020 to the three and six months ended June 25, 2021 was primarily due to increased demand from our customers as a result of growth in the global wafer fabrication equipment market, as well as share-gains at our largest customers.

Net sales to U.S. customers increased by $20.1 million and $38.3 million for the three and six months ended June 25, 2021, respectively. On a relative basis, net sales to U.S. customers as a percent of total net sales decreased from 53.1% and 54.0% to 48.8% and 50.6% for the three and six months ended June 25, 2021, respectively.

Net sales to international customers increased by $40.7 million and $66.9 million for the three and six months ended June 25, 2021, respectively. On a relative basis, net sales to international customers as a percent of total net sales increased increased from 46.9% and 46.0% to 51.2% and 49.4% for the three and six months ended June 25. 2021, respectively.

Cost of Sales and Gross Profit

	Three Months Ended		Change		Six Months Ended		Change	
	June 25, 2021	June 26, 2020	Amount	%	June 25, 2021	June 26, 2020	Amount	%
				(dollars in thousands)				
Cost of sales	$ 234,955	$ 192,302	$ 42,653	22.2%	$ 460,009	$ 383,556	$ 76,453	19.9%
Gross profit	$ 47,353	$ 29,262	$ 18,091	61.8%	$ 86,865	$ 58,036	$ 28,829	49.7%
Gross margin	16.8%	13.2%		+ 360 bps	15.9%	13.1%		+ 280 bps

The increase in cost of sales and gross profit from the three and six months ended June 26, 2020 to the three and six months ended June 25, 2021 was primarily due to increased sales volume.

The increase in our gross margin from the second quarter of 2020 to the second quarter of 2021 was primarily due to increased factory utilization, as a result of higher overall volume, product mix, and $1.5 million in costs recorded in the second quarter of 2020 in connection with the planned closure of our Union City, California facility that did not repeat in the second quarter of 2021. The facility ceased operations during the second quarter of 2021.

The increase in our gross margin from the six months ended June 26, 2020 to the six months ended June 25, 2021 was primarily due to due to increased factory utilization, as a result of higher overall volume, product mix, and $1.4 million in costs recorded in the first quarter of 2020 in connection with a mutual contract settlement that did not repeat in 2021, partially offset by a $0.8 million increase in costs recorded in connection with the planned closure of our Union City, California facility.

Research and Development

	Three Months Ended		Change		Six Months Ended		Change	
	June 25, 2021	June 26, 2020	Amount	%	June 25, 2021	June 26, 2020	Amount	%
				(dollars in thousands)				
Research and development	$ 4,049	$ 3,509	$ 540	15.4%	$ 7,564	$ 6,831	$ 733	10.7%

The increase in research and development expenses from the three and six months ended June 26, 2020 to the three and six months ended June 25, 2021 was primarily due to increased employee-related expense, as we expand our engineering team, and materials associated with our new product development programs.

Selling, General, and Administrative

	Three Months Ended		Change		Six Months Ended		Change	
	June 25, 2021	June 26, 2020	Amount	%	June 25, 2021	June 26, 2020	Amount	%
	(dollars in thousands)							
Selling, general, and administrative	$ 14,699	$ 13,113	$ 1,586	12.1%	$ 29,048	$ 29,731	$ (683)	-2.3%

The increase in selling, general, and administrative expense from the second quarter of 2020 to the second quarter of 2021 was primarily due $1.1 million in increased employee-related expenses, including a $0.4 million increase in share-based compensation expense, $0.3 million in increased facility closure costs incurred in connection with the planned closure of our Union City, California facility, and $0.3 million in increased computer hardware and software costs to support the growing organization, partially offset by $0.3 million in reduced professional and related consulting fees.

The decrease in selling, general, and administrative expense from the six months ended June 26, 2020 to the six months ended June 25, 2021 was primarily due to $1.8 million in executive transition costs associated with the transition of our former CEO to Executive Chairman in the first quarter of 2020 that did not repeat in the first quarter of 2021 and $0.8 million in reduced professional and related consulting fees, partially offset by $0.8 million in increased employee-related expenses and $0.8 million in increased computer hardware and software costs.

Amortization of Intangible Assets

	Three Months Ended		Change		Six Months Ended		Change	
	June 25, 2021	June 26, 2020	Amount	%	June 25, 2021	June 26, 2020	Amount	%
	(dollars in thousands)							
Amortization of intangibles assets	$ 3,390	$ 3,336	$ 54	1.6%	$ 6,781	$ 6,670	$ 111	1.7%

The increase in amortization expense from the three and six months ended June 26, 2020 to the three and six months ended June 25, 2021 was primarily due to incremental amortization expense from the acquisition of a customer relationship intangible asset in December 2020 in connection with our acquisition of a precision machining operation in Nogales, Mexico.

Interest Expense

	Three Months Ended		Change		Six Months Ended		Change	
	June 25, 2021	June 26, 2020	Amount	%	June 25, 2021	June 26, 2020	Amount	%
	(dollars in thousands)							
Interest expense	$ 1,591	$ 2,302	$ (711)	-30.9%	$ 3,510	$ 4,676	$ (1,166)	-24.9%

The decrease in interest expense from the second quarter of 2020 to the second quarter of 2021 was primarily due to a 92 basis point decrease in our weighted average interest rate, from 3.93% to 3.01%, and a $33.5 million decrease in our average amount borrowed during the second quarter of 2021 compared to the second quarter of 2020.

The decrease in interest expense from the six months ended June 26, 2020 to the six months ended June 25, 2021 was primarily due to a 101 basis point decrease in our weighted average interest rate, from 4.17% to 3.16%, and a $13.0 million decrease in our average amount borrowed during the six months ended June 25, 2021 compared to the six months ended June 26, 2020.

Other Expense (Income), Net

	Three Months Ended		Change		Six Months Ended		Change	
	June 25, 2021	June 26, 2020	Amount	%	June 25, 2021	June 26, 2020	Amount	%
	(dollars in thousands)							
Other expense, net	$ 22	$ 2	$ 20	1000.0%	$ 207	$ (29)	$ 236	n/m

The change in other expense, net from the three and six months ended June 26, 2020 to the three and six months ended June 25, 2021 was primarily due to currency exchange rate changes during the quarter as a result of transactions denominated in the local currencies of our foreign operations. These local currencies consist primarily of the Singapore dollar, Malaysian ringgit, and euro.

Income Tax Expense (Benefit)

	Three Months Ended		Change		Six Months Ended		Change	
	June 25, 2021	June 26, 2020	Amount	%	June 25, 2021	June 26, 2020	Amount	%
	(dollars in thousands)							
Income tax expense (benefit)	$ 737	$ 189	$ 548	289.9%	$ 2,252	$ (53)	$ 2,305	n/m

The increase in income tax expense from the three and six months ended June 26, 2020 to the three and six months ended June 26, 2021 was primarily due to increased taxable income in the U.S. in 2021, partially offset by benefits from share-based compensation activity during the periods, as well as a decrease in the release of certain tax reserves related to statute of limitations expirations or settlements.

Non-GAAP Results

Management uses non-GAAP metrics to evaluate our operating and financial results. We believe the presentation of non-GAAP results is useful to investors for analyzing business trends and comparing performance to prior periods, along with enhancing investors' ability to view our results from management's perspective. Non-GAAP net income is defined as: net income excluding (1) amortization of intangible assets, share-based compensation expense, and non-recurring expenses, including contract settlement losses and divestiture and facility shutdown related charges; and (2) the tax impacts associated with our non-GAAP adjustments, as well as non-recurring discrete tax items. Non-GAAP diluted EPS is defined as non-GAAP net income divided by weighted average diluted ordinary shares outstanding during the period.

The following table presents our unaudited non-GAAP net income and a reconciliation from net income, the most comparable GAAP measure, for the periods indicated:

	Three Months Ended		Six Months Ended	
	June 25, 2021	June 26, 2020	June 25, 2021	June 26, 2020
	(dollars in thousands, except per share amounts)			
Non-GAAP Data:				
U.S. GAAP net income	$ 22,865	$ 6,811	$ 37,503	$ 10,210
Non-GAAP adjustments:				
Amortization of intangible assets	3,390	3,336	6,781	6,670
Share-based compensation	2,681	2,141	5,096	5,006
Other non-recurring expense, net (1)	110	195	388	2,885
Contract settlement loss (2)	—	—	—	1,386
Facility shutdown costs (3)	172	1,536	2,682	1,536
Fair value adjustment to inventory from acquisitions (4)	—	—	211	—
Tax adjustments related to non-GAAP adjustments (5)	(2,911)	(1,450)	(4,629)	(3,066)
Non-GAAP net income	$ 26,307	$ 12,569	$ 48,032	$ 24,627
U.S. GAAP diluted EPS	$ 0.79	$ 0.30	$ 1.30	$ 0.44
Non-GAAP diluted EPS	$ 0.90	$ 0.54	$ 1.66	$ 1.07
Shares used to compute diluted EPS	29,092,521	23,066,976	28,942,902	23,099,946

(1) Included in this amount for the three and six months ended June 25, 2021 are (i) non-capitalized costs incurred in connection with our implementation of a new ERP system and a Sarbanes-Oxley ("SOX") compliance program and (ii) a non-recurring settlement charge.

Included in this amount for the second quarter of 2020 are primarily (i) acquisition-related expenses associated with a two-year retention agreement between the Company and key management personnel of IAN (the "IAN retention agreement"), which we acquired in April 2018, and (ii) non-capitalizable costs incurred in connection with our implementation of a new ERP system and a SOX compliance program.

Included in this amount for the six months ended June 26, 2020 are (i) a $1.8 million bonus payment to our former CEO in connection with his transition to executive chairman, (ii) acquisition-related expenses associated with the IAN retention agreement, and (iii) non-capitalizable costs incurred in connection with our implementation of a new ERP system and a SOX compliance program.

(2) During the first quarter of 2020, we reached a mutual settlement with the counterparty of a contract dispute and, accordingly, recorded a $1.4 million contract settlement loss to cost of sales.

(3) During the second quarter of 2020, we announced the closure of our manufacturing facility in Union City, California, which we completed during the second quarter of 2021. Included in this amount for the second quarter of 2021 are $0.4 million in write-off costs associated with inventories determined during the quarter to be obsolete and $0.3 million in other shutdown related charges, partially offset by a $0.5 million gain realized upon the sale of equipment and other fixed assets. As of the end of the second quarter of 2021, the facility was closed and vacated, and no further charges are expected on a go-forward basis.

Included in this amount for the six months ended June 25, 2021 are $2.6 million in write-off costs associated with inventories determined during the period to be obsolete, $0.3 million in other shutdown related charges, and $0.2 million in severance costs associated with affected employees, partially offset by a $0.5 million gain realized upon the sale of equipment and other fixed assets.

Included in this amount for the three and six months ended June 26, 2020 are write-off costs associated with inventories determined during the period to be obsolete of $1.3 million and severance costs associated with affected employees of $0.2 million

(4) As part of our purchase price allocation for our acquisition of a precision machining operation in Mexico in December 2020, we recorded acquired-inventory at fair value, resulting in a fair value step-up of $0.2 million. This was subsequently released to cost of sales in the first quarter of 2021 as acquired-inventory was sold.

(5) Adjusts U.S. GAAP income tax expense (benefit) for impact of our non-GAAP adjustments, as defined, including the impacts of excluding share-based compensation, amortization of intangible assets, and other non-recurring expenses. This adjustment also excludes the impact of non-recurring discrete tax items.

Non-GAAP results have limitations as an analytical tool, and you should not consider them in isolation or as a substitute for our results reported under GAAP. Other companies may calculate non-GAAP results differently or may use other measures to evaluate their performance, both of which could reduce the usefulness of our non-GAAP results as a tool for comparison.

Because of these limitations, you should consider non-GAAP results alongside other financial performance measures and results presented in accordance with GAAP. In addition, in evaluating non-GAAP results, you should be aware that in the future we will incur expenses such as those that are the subject of adjustments in deriving non-GAAP results and you should not infer from our presentation of non-GAAP results that our future results will not be affected by these expenses or any unusual or non-recurring items.

Liquidity and Capital Resources

We ended the second quarter of 2021 with cash of $141.7 million, a decrease of $111.2 million from December 25, 2020. The decrease during the six months ended June 25, 2021 was primarily due to purchases of marketable securities of $105.0 million, payments on long-term debt of $34.4 million, and capital expenditures of $15.4 million, partially offset by cash from operating activities of $38.9 million and net proceeds from the issuance of shares under our share-based compensation plans of $4.2 million.

We believe that our cash, the amounts available under our revolving credit facility, and our cash flows from operations will be sufficient to meet our anticipated cash needs for at least the next 12 months.

Cash Flow Analysis

The following table sets forth a summary of operating, investing, and financing activities for the periods presented:

	Six Months Ended	
	June 25, 2021	**June 26, 2020**
	(in thousands)	
Cash provided by (used in) operating activities	$ 38,889	$ (25,183)
Cash used in investing activities	(119,898)	(5,665)
Cash provided by (used in) financing activities	(30,176)	27,205
Net decrease in cash	$ (111,185)	$ (3,643)

Operating Activities

Our cash provided by operating activities of $38.9 million during the six months ended June 25, 2021 consisted of net income of $37.5 million and net non-cash charges of $17.7 million, partially offset by an increase in our net operating assets and liabilities of $16.3 million. Net non-cash charges primarily consisted of depreciation and amortization of $11.5 million, share-based compensation of $5.1 million, and deferred taxes of $1.1 million. The increase in our net operating assets and liabilities was primarily due to an increase in inventories and accounts receivable of $31.5 million and $18.1 million, respectively, partially offset by an increase in accounts payable of $33.3 million.

Investing Activities

Our cash used in investing activities of $119.9 million during the six months ended June 25, 2021 consisted of purchases of marketable securities of $105.0 million, capital expenditures of $15.4 million, partially offset by proceeds from the sale of equipment and other fixed assets associated with our planned closure of our Union City, California facility of $0.5 million.

Financing Activities

Our cash used in financing activities of $30.2 million during the six months ended June 25, 2021 consisted of payments on long-term debt of $34.4 million, of which $30.0 million was a paydown on our revolving credit facility, partially offset by net proceeds from the issuance of shares under our share-based compensation plans of $4.2 million.

Critical Accounting Policies

Our consolidated financial statements have been prepared in accordance with U.S. GAAP. The preparation of these consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, sales, expenses, and related disclosures. We base our estimates on historical experience and on various other assumptions that we believe are reasonable under the circumstances. We evaluate our estimates and assumptions on an ongoing basis. Actual results may differ from these estimates. To the extent that there are material differences between these estimates and our actual results, our future financial statements will be affected.

The critical accounting policies requiring estimates, assumptions, and judgments that we believe have the most significant impact on our consolidated financial statements are identified and described in our annual consolidated financial statements and the notes included in our Annual Report on Form 10-K for the year ended December 25, 2020 (our "Annual Report").

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Foreign Currency Exchange Risk

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

While not currently significant, we do have certain operating expenses that are denominated in currencies of the countries in which our operations are located, and may be subject to fluctuations due to foreign currency exchange rates, particularly the Singapore dollar, Malaysian ringgit, British pound, euro, and South Korean won. Fluctuations in foreign currency exchange rates may cause us to recognize transaction gains and losses in our statement of operations. To date, foreign currency transaction gains and losses have not been material to our financial statements, and we have not engaged in any foreign currency hedging transactions.

Interest Rate Risk

We had total indebtedness of $167.9 million as of June 25, 2021, exclusive of $1.5 million in debt issuance costs, of which $8.8 million was due within 12 months. The outstanding amount of debt included elsewhere in this report is net of debt issuance costs.

We do not enter into investments for trading or speculative purposes and have not used any derivative financial instruments to manage our interest rate risk exposure. We have not been exposed to, nor do we anticipate being exposed to, material risks due to changes in interest rates. The interest rate on our outstanding debt is based on LIBOR, the Prime Rate, or the Federal Funds Rate. A hypothetical 1% interest rate change on our outstanding debt would have resulted in a $0.4 million change to interest expense during the second quarter of 2021, or $1.7 million on an annualized basis.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

As required by Rule 13a-15(b) under the Exchange Act, we carried out an evaluation under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this report. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives. Based on this evaluation, our CEO and CFO concluded that our disclosure controls and procedures were effective as of June 25, 2021.

Limitations on Effectiveness of Controls and Procedures

A company's internal control over financial reporting is a process designed by, or under the supervision of, a company's principal executive and principal financial officers, or persons performing similar functions, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with GAAP. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. In addition, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with policies or procedures may deteriorate. If we cannot provide reliable financial information, our business, operating results, and share price could be negatively impacted.

Changes in Internal Control Over Financial Reporting

There have been no changes in our internal control over financial reporting (as defined in Rule 13a-15(f) of the Exchange Act) during the period covered under this report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II—OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

We are currently not a party to any material pending or threatened litigation.

ITEM 1A. RISK FACTORS

This quarterly report should be read in conjunction with the risk factors included in our 2020 Annual Report. There have been no material changes in our risk factors from the risk factors disclosed in that report. These risk factors do not identify all risks that we face – our operations could also be affected by factors that are not presently known to us or that we currently consider to be immaterial to our operations. Due to risks and uncertainties, known and unknown, our past financial results may not be a reliable indicator of future performance and historical trends should not be used to anticipate results or trends in future periods.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

Exhibit Number	Description
31.1*	Certification of Principal Executive Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of Principal Financial Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1**	Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2**	Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS*	Inline XBRL Instance Document
101.SCH*	Inline XBRL Taxonomy Extension Schema Document
101.CAL*	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF*	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover Page Interactive Data File (formatted as inline XBRL with applicable taxonomy extension information contained in Exhibits 101)

* Filed herewith.

** Furnished herewith and not filed.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

		ICHOR HOLDINGS, LTD.
Date: August 4, 2021	By:	/s/ Jeffrey S. Andreson Jeffrey S. Andreson Chief Executive Officer (Principal Executive Officer)
Date: August 4, 2021	By:	/s/ Larry J. Sparks Larry J. Sparks Chief Financial Officer (Principal Accounting and Financial Officer)

Exhibit 31.1

CEO CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Jeffrey S. Andreson, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Ichor Holdings, Ltd.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a‑15(f) and 15d‑15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 4, 2021

By: /s/ Jeffrey S. Andreson
Jeffrey S. Andreson
Chief Executive Officer

Exhibit 31.2

CFO CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Larry J. Sparks, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Ichor Holdings, Ltd.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 4, 2021

By: /s/ Larry J. Sparks
Larry J. Sparks
Chief Financial Officer

Exhibit 32.1

CERTIFICATION PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Ichor Holdings, Ltd. (the “Company”) on Form 10-Q for the period ending June 25, 2021 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I certify, to my knowledge, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Date: August 4, 2021

By: /s/ Jeffrey S. Andreson
Jeffrey S. Andreson
Chief Executive Officer

Exhibit 32.2

CERTIFICATION PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Ichor Holdings, Ltd. (the "Company") on Form 10-Q for the period ending June 25, 2021 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I certify, to my knowledge, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Date: August 4, 2021

By: /s/ Larry J. Sparks

Larry J. Sparks

Chief Financial Officer