

KULICKE & SOFFA INDUSTRIES INC  
Form 10-Q  
January 31, 2013

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

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

For the quarterly period ended December 29, 2012

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 No. 0-121*

**KULICKE AND SOFFA INDUSTRIES, INC.**

(Exact name of registrant as specified in its charter)

**PENNSYLVANIA**

**23-1498399**

(State or other jurisdiction of incorporation) (IRS Employer)

Identification No.)

6 Serangoon North, Avenue 5, #03-16, Singapore 554910

(Address of principal executive offices and Zip Code)

(215) 784-7518

(Registrant's telephone number, including area code)

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

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

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

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

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

As of January 25, 2013, there were 75,114,892 shares of the Registrant's Common Stock, no par value, outstanding.

**KULICKE AND SOFFA INDUSTRIES, INC.**

**FORM 10 – Q**

**December 29, 2012**

**Index**

|  | Page Number |
|--|-------------|
| <b>PART I. FINANCIAL INFORMATION</b>   |             |
| Item 1. FINANCIAL STATEMENTS (Unaudited)   |             |
| Consolidated Balance Sheets as of December 29, 2012 and September 29, 2012   | 3           |
| Consolidated Statements of Operations for the three months ended December 29, 2012 and December 31, 2011           | 4           |
| Consolidated Statements of Comprehensive Income for the three months ended December 29, 2012 and December 31, 2011 | 5           |
| Consolidated Statements of Cash Flows for the three months ended December 29, 2012 and December 31, 2011           | 6           |
| Notes to the Consolidated Financial Statements   | 7           |
| Item 2. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS                      | 21          |
| Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK   | 34          |
| Item 4. CONTROLS AND PROCEDURES  | 34          |
| <b>PART II. OTHER INFORMATION</b>  |             |
| Item 1A. RISK FACTORS  | 34          |

|                  |    |
|------------------|----|
| Item 6. EXHIBITS | 35 |
| SIGNATURES       | 36 |

**PART I. - FINANCIAL INFORMATION****Item 1. – FINANCIAL STATEMENTS****KULICKE AND SOFFA INDUSTRIES, INC.****CONSOLIDATED BALANCE SHEETS***(in thousands)***Unaudited**

|  | As of<br>December 29, 2011 | September 29, 2012 |
|--|----------------------------|--------------------|
| <b>ASSETS</b>  |                            |                    |
| Current assets:  |                            |                    |
| Cash and cash equivalents  | \$494,170                  | \$ 440,244         |
| Restricted Cash  | 2,900                      | -                  |
| Accounts and notes receivable, net of allowance for doubtful accounts of \$1,019 and \$937, respectively | 98,715                     | 188,986            |
| Inventories, net   | 54,328                     | 58,994             |
| Prepaid expenses and other current assets  | 16,018                     | 21,577             |
| Deferred income taxes  | 3,522                      | 3,515              |
| Total current assets   | 669,653                    | 713,316            |
| Property, plant and equipment, net   | 28,781                     | 28,441             |
| Goodwill   | 41,546                     | 41,546             |
| Intangible assets  | 18,092                     | 20,387             |
| Other assets   | 11,416                     | 11,919             |
| <b>TOTAL ASSETS</b>  | <b>\$769,488</b>           | <b>\$ 815,609</b>  |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>  |                            |                    |
| Current liabilities:   |                            |                    |
| Accounts payable   | 20,305                     | 57,231             |
| Accrued expenses and other current liabilities   | 42,040                     | 57,946             |
| Income taxes payable   | 6,817                      | 8,192              |
| Total current liabilities  | 69,162                     | 123,369            |
| Deferred income taxes  | 38,007                     | 37,875             |
| Other liabilities  | 10,994                     | 10,698             |
| <b>TOTAL LIABILITIES</b>   | <b>118,163</b>             | <b>171,942</b>     |

Commitments and contingent liabilities (Note 9)

SHAREHOLDERS' EQUITY:

|   |           |            |   |
|---|-----------|------------|---|
| Preferred stock, no par value:  |           |            |   |
| Authorized 5,000 shares; issued - none  | -         | -          |   |
| Common stock, no par value:   |           |            |   |
| Authorized 200,000 shares; issued 80,050 and 79,099, respectively; outstanding 75,095 and 74,145 shares, respectively | 458,482   | 455,122    |   |
| Treasury stock, at cost, 4,954 shares   | (46,356)  | (46,356)   | ) |
| Accumulated income  | 236,124   | 232,520    |   |
| Accumulated other comprehensive income  | 3,075     | 2,381      |   |
| TOTAL SHAREHOLDERS' EQUITY  | 651,325   | 643,667    |   |
| <br>  |           |            |   |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY  | \$769,488 | \$ 815,609 |   |

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

**KULICKE AND SOFFA INDUSTRIES, INC.****CONSOLIDATED STATEMENTS OF OPERATIONS***(in thousands, except per share data)***Unaudited**

|  | Three months ended |                   |
|--|--------------------|-------------------|
|  | December 2010      | December 31, 2011 |
| Net revenue                                | \$ 114,039         | \$ 120,024        |
| Cost of sales                              | 62,514             | 64,748            |
| Gross profit                               | 51,525             | 55,276            |
| Selling, general and administrative        | 29,067             | 28,752            |
| Research and development                   | 18,253             | 14,148            |
| Operating expenses                         | 47,320             | 42,900            |
| Income from operations                     | 4,205              | 12,376            |
| Interest income                            | 174                | 260               |
| Interest expense                           | -                  | (2,152)           |
| Income from operations before income taxes | 4,379              | 10,484            |
| Provision for income taxes                 | 775                | 1,977             |
| Net income                                 | \$ 3,604           | \$ 8,507          |
| Net income per share:                      |                    |                   |
| Basic                                      | \$ 0.05            | \$ 0.12           |
| Diluted                                    | \$ 0.05            | \$ 0.11           |
| Weighted average shares outstanding:       |                    |                   |
| Basic                                      | 74,852             | 73,540            |
| Diluted                                    | 76,209             | 74,628            |

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

**KULICKE AND SOFFA INDUSTRIES, INC.**

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

*(in thousands, except per share data)*

**Unaudited**

|   | Three months ended |                   |
|---|--------------------|-------------------|
|   | December 29, 2010  | December 31, 2011 |
| Net income  | \$ 3,604           | \$ 8,507          |
| Other comprehensive income (loss):                                |                    |                   |
| Foreign currency translation adjustment                           | 711                | 168               |
| Unrecognized actuarial gain, Switzerland pension plan, net of tax | (17 )              | 14                |
| Total other comprehensive income                                  | 694                | 182               |
| Comprehensive income  | \$ 4,298           | \$ 8,689          |

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



**KULICKE AND SOFFA INDUSTRIES, INC.****CONSOLIDATED STATEMENTS OF CASH FLOWS***(in thousands)***Unaudited**

|   | Three months ended |                   |
|---|--------------------|-------------------|
|   | December 2011      | November 30, 2011 |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>                                      |                    |                   |
| Net income  | \$3,604            | \$ 8,507          |
| Adjustments to reconcile net income to net cash provided by operating activities: |                    |                   |
| Depreciation and amortization   | 4,802              | 4,258             |
| Amortization of debt discount and debt issuance costs                             | -                  | 1,910             |
| Equity-based compensation and employee benefits                                   | 3,201              | 2,099             |
| Provision for doubtful accounts   | 90                 | 145               |
| Provision for inventory valuation   | 2,077              | 1,340             |
| Deferred taxes  | 656                | 207               |
| Switzerland pension plan curtailment  | -                  | (1,820 )          |
| Changes in operating assets and liabilities, net of businesses acquired or sold:  |                    |                   |
| Accounts and notes receivable   | 89,895             | 28,406            |
| Inventory   | 2,617              | 11,996            |
| Prepaid expenses and other current assets   | 5,557              | 1,625             |
| Accounts payable, accrued expenses and other current liabilities                  | (54,063 )          | (24,746 )         |
| Income taxes payable  | (1,376 )           | 797               |
| Other, net  | 1,434              | (400 )            |
| Net cash provided by continuing operations  | 58,494             | 34,324            |
| Net cash used in discontinued operations  | -                  | (486 )            |
| Net cash provided by operating activities   | 58,494             | 33,838            |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>                                      |                    |                   |
| Purchases of property, plant and equipment  | (1,616 )           | (1,498 )          |
| Sale of investments classified as available-for-sale                              | -                  | 6,364             |
| Changes in restricted cash, net   | (2,900 )           | -                 |
| Purchase of Orthodyne (Note 3)  | -                  | (14,848 )         |
| Net cash used in investing activities   | (4,516 )           | (9,982 )          |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>                                      |                    |                   |
| Proceeds from exercise of common stock options                                    | 159                | 1,576             |
| Net cash provided by financing activities   | 159                | 1,576             |
| Effect of exchange rate changes on cash and cash equivalents                      | (211 )             | 141               |
| Changes in cash and cash equivalents  | 53,926             | 25,573            |
| Cash and cash equivalents at beginning of period                                  | 440,244            | 378,188           |
| Cash and cash equivalents at end of period  | \$494,170          | \$ 403,761        |

CASH PAID FOR:

|              |         |          |
|--------------|---------|----------|
| Interest     | \$-     | \$ 481   |
| Income taxes | \$1,104 | \$ 1,445 |

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

**KULICKE AND SOFFA INDUSTRIES, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Unaudited

**NOTE 1: BASIS OF PRESENTATION**

*Basis of Consolidation*

These consolidated financial statements include the accounts of Kulicke and Soffa Industries, Inc. and its subsidiaries (the “Company”), with appropriate elimination of intercompany balances and transactions.

The interim consolidated financial statements are unaudited and, in management’s opinion, include all adjustments (consisting only of normal and recurring adjustments) necessary for a fair presentation of results for these interim periods. The interim consolidated financial statements do not include all of the information and footnote disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) and should be read in conjunction with the consolidated financial statements and notes thereto included in the Annual Report on Form 10-K for the year ended September 29, 2012, filed with the Securities and Exchange Commission, which includes Consolidated Balance Sheets as of September 29, 2012 and October 1, 2011, and the related Consolidated Statements of Operations, Cash Flows, and Changes in Shareholders’ Equity for each of the years in the three-year period ended September 29, 2012. The results of operations for any interim period are not necessarily indicative of the results of operations for any other interim period or for a full year.

*Fiscal Year*

Each of the Company’s first three fiscal quarters end on the Saturday that is 13 weeks after the end of the immediately preceding fiscal quarter. The fourth quarter of each fiscal year ends on the Saturday closest to September 30<sup>th</sup>. Fiscal 2013 quarters end on December 29, 2012, March 30, 2013, June 29, 2013 and September 28, 2013. Fiscal 2012 quarters ended on December 31, 2011, March 31, 2012, June 30, 2012 and September 29, 2012. In fiscal years consisting of 53 weeks, the fourth quarter will consist of 14 weeks.

*Nature of Business*

The Company designs, manufactures and sells capital equipment and expendable tools as well as services, maintains, repairs and upgrades equipment, all used to assemble semiconductor devices. The Company's operating results depend upon the capital and operating expenditures of semiconductor manufacturers and outsourced semiconductor assembly and test providers ("OSATs") worldwide which, in turn, depend on the current and anticipated market demand for semiconductors and products utilizing semiconductors. The semiconductor industry is highly volatile and experiences downturns and slowdowns which have a severe negative effect on the semiconductor industry's demand for semiconductor capital equipment, including assembly equipment manufactured and sold by the Company and, to a lesser extent, expendable tools, including those sold by the Company. These downturns and slowdowns have in the past adversely affected the Company's operating results. The Company believes such volatility will continue to characterize the industry and the Company's operations in the future.

### *Use of Estimates*

The preparation of consolidated financial statements requires management to make assumptions, estimates and judgments that affect the reported amounts of assets and liabilities, net revenue and expenses during the reporting periods, and disclosures of contingent assets and liabilities as of the date of the consolidated financial statements. On an on-going basis, management evaluates estimates, including but not limited to, those related to accounts receivable, reserves for excess and obsolete inventory, carrying value and lives of fixed assets, goodwill and intangible assets, valuation allowances for deferred tax assets and deferred tax liabilities, repatriation of un-remitted foreign subsidiary earnings, equity-based compensation expense, restructuring, and warranties. Management bases its estimates on historical experience and on various other assumptions believed to be reasonable. As a result, management makes judgments regarding the carrying values of its assets and liabilities that are not readily apparent from other sources. Authoritative pronouncements, historical experience and assumptions are used as the basis for making estimates, and on an ongoing basis, management evaluates these estimates. Actual results may differ from these estimates under different assumptions or conditions.

### *Vulnerability to Certain Concentrations*

Financial instruments which may subject the Company to concentrations of credit risk as of December 29, 2012 and September 29, 2012 consisted primarily of short-term investments and trade receivables. The Company manages credit risk associated with investments by investing its excess cash in highly rated debt instruments of the U.S. Government and its agencies, financial institutions, and corporations. The Company has established investment guidelines relative to diversification and maturities designed to maintain safety and liquidity. These guidelines are periodically reviewed and modified as appropriate. The Company does not have any exposure to sub-prime financial instruments or auction rate securities.

The Company's trade receivables result primarily from the sale of semiconductor equipment, related accessories and replacement parts, and expendable tools to a relatively small number of large manufacturers in a highly concentrated industry. Write-offs of uncollectible accounts have historically not been significant; however, the Company closely monitors its customers' financial strength to reduce the risk of loss.

The Company's products are complex and require raw materials, components and subassemblies having a high degree of reliability, accuracy and performance. The Company relies on subcontractors to manufacture many of these components and subassemblies and it relies on sole source suppliers for some important components and raw material inventory.

The Company's international operations are exposed to changes in foreign currency exchange rates due to transactions denominated in currencies other than the location's functional currency. The Company is also exposed to foreign currency fluctuations that impact the remeasurement of net monetary assets of those operations whose functional currency, the U.S. dollar, differs from their respective local currencies, most notably in Israel, Malaysia, Singapore and Switzerland. In addition to net monetary remeasurement, the Company has exposures related to the translation of subsidiary financial statements from their functional currency, the local currency, into our reporting currency, the U.S. dollar, most notably in China, Taiwan and Japan. The Company's U.S. operations also have foreign currency exposure due to net monetary assets denominated in currencies other than the U.S. dollar.

### ***Foreign Currency Translation***

The majority of the Company's business is transacted in U.S. dollars; however, the functional currencies of some of the Company's subsidiaries are their local currencies. In accordance with ASC No. 830, *Foreign Currency Matters* ("ASC 830"), for a subsidiary of the Company that has a functional currency other than the U.S. dollar, gains and losses resulting from the translation of the functional currency into U.S. dollars for financial statement presentation are not included in determining net income, but are accumulated in the cumulative translation adjustment account as a separate component of shareholders' equity (accumulated other comprehensive income (loss)). Under ASC 830, cumulative translation adjustments are not adjusted for income taxes as they relate to indefinite investments in non-U.S. subsidiaries. Gains and losses resulting from foreign currency transactions are included in the determination of net income.

### ***Cash Equivalents***

The Company considers all highly liquid investments with original maturities of three months or less when purchased to be cash equivalents. Cash equivalents are measured at fair value based on level one measurement, or quoted market prices, as defined by ASC No. 820, *Fair Value Measurements and Disclosures*. As of December 29, 2012 and

September 29, 2012, fair value approximated the cost basis for cash equivalents.

### ***Investments***

Investments, other than cash equivalents, are classified as “trading,” “available-for-sale” or “held-to-maturity”, in accordance with ASC No. 320, *Investments-Debt & Equity Securities*, and depending upon the nature of the investment, its ultimate maturity date in the case of debt securities, and management’s intentions with respect to holding the securities. Investments classified as “trading” are reported at fair market value, with unrealized gains or losses included in earnings. Investments classified as “available-for-sale” are reported at fair market value, with net unrealized gains or losses reflected as a separate component of shareholders’ equity (accumulated other comprehensive income (loss)). The fair market value of trading and available-for-sale securities is determined using quoted market prices at the balance sheet date. Investments classified as held-to-maturity are reported at amortized cost. Realized gains and losses are determined on the basis of specific identification of the securities sold.

### ***Allowance for Doubtful Accounts***

The Company maintains allowances for doubtful accounts for estimated losses resulting from its customers' failure to make required payments. If the financial condition of the Company's customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. The Company is also subject to concentrations of customers and sales to a few geographic locations, which could also impact the collectability of certain receivables. If global economic conditions deteriorate or political conditions were to change in some of the countries where the Company does business, it could have a significant impact on the results of operations, and the Company's ability to realize the full value of its accounts receivable.

### ***Inventories***

Inventories are stated at the lower of cost (on a first-in first-out basis) or market value. The Company generally provides reserves for obsolete inventory and for inventory considered to be in excess of demand. Demand is generally defined as 18 months future consumption for equipment, 24 months consumption for all spare parts, and 12 months consumption for expendable tools. Forecasted demand is based upon internal projections, historical sales volumes, customer order activity and a review of consumable inventory levels at customers' facilities. The Company communicates forecasts of its future demand to its suppliers and adjusts commitments to those suppliers accordingly. If required, the Company reserves the difference between the carrying value of its inventory and the lower of cost or market value, based upon assumptions about future demand, and market conditions. If actual market conditions are less favorable than projections, additional inventory reserves may be required.

### ***Property, Plant and Equipment***

Property, plant and equipment are carried at cost. The cost of additions and those improvements which increase the capacity or lengthen the useful lives of assets are capitalized while repair and maintenance costs are expensed as incurred. Depreciation and amortization are provided on a straight-line basis over the estimated useful lives as follows: buildings 25 years; machinery and equipment 3 to 10 years; and leasehold improvements are based on the shorter of the life of lease or life of asset. Purchased computer software costs related to business and financial systems are amortized over a five-year period on a straight-line basis.

### ***Valuation of Long-Lived Assets***

In accordance with ASC No. 360, *Property, Plant & Equipment* ("ASC 360"), the Company's property, plant and equipment is tested for impairment based on undiscounted cash flows when triggering events occur, and if impaired, written-down to fair value based on either discounted cash flows or appraised values. ASC 360 also provides a single accounting model for long-lived assets to be disposed of by sale and establishes additional criteria that would have to be met to classify an asset as held for sale. The carrying amount of an asset or asset group is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset or asset group. Estimates of future cash flows used to test the recoverability of a long-lived asset or asset group must incorporate the entity's own assumptions about its use of the asset or asset group and must factor in all available evidence.

ASC 360 requires that long-lived assets be tested for recoverability whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Such events include significant under-performance relative to the expected historical or projected future operating results; significant changes in the manner of use of the

assets; significant negative industry or economic trends and significant changes in market capitalization.

### *Accounting for Impairment of Goodwill*

The Company operates two reportable segments: Equipment and Expendable Tools. Goodwill was recorded in 2009 for the acquisition of Orthodyne Electronics Inc., which added wedge bonder products to the Equipment business.

Accounting Standard Update 2011-08, *Testing Goodwill for Impairment* provides companies with the option to assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying value. If, after assessing the qualitative factors, a company determines that it is not more likely than not that the fair value of a reporting unit is less than its carrying value, then performing the two-step impairment test is unnecessary. However, if a company concludes otherwise, then it is required to perform the first step of the two-step goodwill impairment test. If the carrying value of a reporting unit exceeds its fair value, then a company is required to perform the second step of the two-step goodwill impairment test.

As part of the annual evaluation of the goodwill, the Company performs an impairment test of its goodwill in the fourth quarter of each fiscal year to coincide with the completion of our annual forecasting process. The Company tests for impairment if a “triggering” event occurs that may have the effect of reducing the fair value of a reporting unit below its respective carrying value. During the three months ended December 29, 2012, no triggering events occurred.

Impairment assessments inherently involve judgment as to assumptions about expected future cash flows and the impact of market conditions on those assumptions. Future events and changing market conditions may impact the assumptions as to prices, costs, growth rates or other factors that may result in changes in the estimates of future cash flows. Although the Company believes the assumptions that it has used in testing for impairment are reasonable, significant changes in any one of the assumptions could produce a significantly different result. Indicators of potential impairment may lead the Company to perform interim goodwill impairment assessments including, significant and unforeseen customer losses, a significant adverse change in legal factors or in the business climate, a significant adverse action or assessment by a regulator, a significant stock price decline or unanticipated competition.



For further information on goodwill and other intangible assets, see Note 3 below.

### ***Revenue Recognition***

In accordance with ASC No. 605, *Revenue Recognition*, the Company recognizes revenue when persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, the price is fixed or determinable, the collectability is reasonably assured, and equipment installation obligations have been completed and customer acceptance, when applicable, has been received or otherwise released from installation or customer acceptance obligations. If terms of the sale provide for a customer acceptance period, revenue is recognized upon the expiration of the acceptance period or customer acceptance, whichever occurs first. The Company's standard terms are Ex Works (the Company's factory), with title transferring to its customer at the Company's loading dock or upon embarkation. The Company has a small percentage of sales with other terms, and revenue is recognized in accordance with the terms of the related customer purchase order. Revenue related to services is recognized upon performance of the services requested by a customer order. Revenue for extended maintenance service contracts with a term more than one month is recognized on a prorated straight-line basis over the term of the contract.

Shipping and handling costs billed to customers are recognized in net revenue. Shipping and handling costs paid by the Company are included in cost of sales.

### ***Research and Development***

The Company charges research and development costs associated with the development of new products to expense when incurred. In certain circumstances, pre-production machines which the Company intends to sell are carried as inventory until sold.

### ***Income Taxes***

In accordance with ASC No. 740, *Income Taxes*, deferred income taxes are determined using the liability method. The Company records a valuation allowance to reduce its deferred tax assets to the amount it expects is more likely than not to be realized. While the Company has considered future taxable income and its ongoing tax planning strategies in assessing the need for the valuation allowance, if it were to determine that it would be able to realize its deferred tax assets in the future in excess of its net recorded amount, an adjustment to the deferred tax asset would increase income in the period such determination was made. Likewise, should the Company determine it would not be able to realize all or part of its net deferred tax assets in the future, an adjustment to the deferred tax asset would decrease income in

the period such determination was made.

In accordance with ASC No. 740 Topic 10, *Income Taxes, General* (“ASC 740.10”), the Company accounts for uncertain tax positions taken or expected to be taken in its income tax return. Under ASC 740.10, the Company utilizes a two-step approach for evaluating uncertain tax positions. Step one, or recognition, requires a company to determine if the weight of available evidence indicates a tax position is more likely than not to be sustained upon audit, including resolution of related appeals or litigation processes, if any. Step two, or measurement, is based on the largest amount of benefit, which is more likely than not to be realized on settlement with the taxing authority.

### ***Equity-Based Compensation***

The Company accounts for equity-based compensation under the provisions of ASC No. 718, *Compensation - Stock Compensation* (“ASC 718”). ASC 718 requires the recognition of the fair value of the equity-based compensation in net income. Compensation expense associated with market-based restricted stock is determined using a Monte-Carlo valuation model, and compensation expense associated with time-based and performance-based restricted stock is determined based on the number of shares granted and the fair value on the date of grant. The fair value of the Company’s stock option awards are estimated using a Black-Scholes option valuation model. In addition, the calculation of equity-based compensation costs requires that the Company estimate the number of awards that will be forfeited during the vesting period. The fair value of equity-based awards is amortized over the vesting period of the award and the Company elected to use the straight-line method for awards granted after the adoption of ASC 718.

### ***Earnings per Share***

Earnings per share (“EPS”) are calculated in accordance with ASC No. 260, *Earnings per Share*. Basic EPS include only the weighted average number of common shares outstanding during the period. Diluted EPS includes the weighted average number of common shares and the dilutive effect of stock options, restricted stock and share unit awards and convertible subordinated notes outstanding during the period, when such instruments are dilutive.

In accordance with ASC No. 260.10.55, *Earnings per Share - Implementation & Guidance* (“ASC 260.10.55”), the Company treats all outstanding unvested share-based payment awards that contain rights to nonforfeitable dividends as participating in undistributed earnings with common shareholders. Awards of this nature are considered participating securities and the two-class method of computing basic and diluted EPS must be applied. The Company adopted ASC 260.10.55 on October 4, 2009 (see Note 6).

***Prior Period Adjustment***

During the three months ended December 29, 2012, the Company identified a prior period adjustment of \$1.1 million relating to the recognition of government grants that resulted in increased R&D expenses and a reduction of grants receivable. This error was corrected during the quarter ended December 29, 2012 and management has deemed that the adjustment was not material to the previous fiscal year ended September 29, 2012 or the expected full year results of the current year ending September 28, 2013.

***Recent Accounting Pronouncements***

There were no new accounting pronouncements during the three months ended December 29, 2012, as compared to the recent accounting pronouncements described in the Company's Annual Report on Form 10-K for the fiscal year ended September 29, 2012, that are of significance, or potential significance, to the Company.

**NOTE 2: BALANCE SHEET COMPONENTS**

The following tables reflect the components of significant balance sheet accounts as of December 29, 2012 and September 29, 2012:

| (in thousands)                         | As of             |                    |
|--|-------------------|--------------------|
|  | December 29, 2012 | September 29, 2012 |
| Inventories, net:                      |                   |                    |
| Raw materials and supplies             | \$35,067          | \$ 26,660          |
| Work in process                        | 20,883            | 23,352             |
| Finished goods                         | 17,649            | 27,599             |
|  | 73,599            | 77,611             |
| Inventory reserves                     | (19,271)          | (18,617)           |
|  | \$54,328          | \$ 58,994          |
| Property, plant and equipment, net:    |                   |                    |
| Land                                   | \$2,086           | \$ 2,086           |
| Buildings and building improvements    | 4,823             | 4,830              |
| Leasehold improvements                 | 16,056            | 16,005             |
| Data processing equipment and software | 22,968            | 23,819             |

Edgar Filing: KULICKE & SOFFA INDUSTRIES INC - Form 10-Q

|  |          |           |   |
|--|----------|-----------|---|
| Machinery, equipment, furniture and fixtures | 40,445   | 40,580    |   |
| Construction in progress (1)                 | 4,462    | 3,219     |   |
|  | 90,840   | 90,539    |   |
| Accumulated depreciation                     | (62,059) | (62,098)  | ) |
|  | \$28,781 | \$ 28,441 |   |

Accrued expenses and other current liabilities:

|                                       |          |           |
|---------------------------------------|----------|-----------|
| Wages and benefits                    | \$13,523 | \$ 18,734 |
| Accrued customer obligations (2)      | 12,651   | 22,984    |
| Commissions and professional fees (3) | 2,913    | 2,776     |
| Severance (4)                         | 2,607    | 2,840     |
| Other                                 | 10,346   | 10,612    |
|                                       | \$42,040 | \$ 57,946 |

Pursuant to ASC No. 840, *Leases*, for lessee's involvement in asset construction, the Company is considered the owner of the building during the construction phase for the Agreement to Develop and Lease (the "ADL") facility (1) being developed by Mapletree Industrial Trust in Singapore - see Note 9. The estimated construction costs incurred to date in relation to the relevant proportion of the Company's lease is recognized on the balance sheet as at December 29, 2012 and September 29, 2012. Applicable ground lease expense was accrued.

- (2) Represents customer advance payments, customer credit program, accrued warranty expense and accrued retrofit costs.

In connection with the September 2010 retirement of the Company's former Chief Executive Officer ("CEO"), (3) balances as of December 29, 2012 and September 29, 2012 include \$0.2 million and \$0.3 million, respectively, related to his three-year consulting arrangement.

- (4) Total severance payable within the next twelve months includes approximately \$1.2 million of other severance not part of the Company's plan for transition and consolidation of operations to Asia.

### **NOTE 3: GOODWILL AND INTANGIBLE ASSETS**

#### ***Goodwill***

Intangible assets classified as goodwill are not amortized. The Company performs an annual impairment test of its goodwill during the fourth quarter of each fiscal year, which coincides with the completion of its annual forecasting process. The Company performed its annual impairment test in the fourth quarter of fiscal 2012 and concluded that no impairment charge was required. The Company also tests for impairment if a "triggering" event occurs that may have the effect of reducing the fair value of a reporting unit below its respective carrying value. No triggering event occurred during the three months ended December 29, 2012.

On October 3, 2008, the Company completed the acquisition of Orthodyne Electronics Corporation ("Orthodyne") and agreed to pay Orthodyne an additional amount in the future based upon the gross profit realized by the acquired business over a three year period from date of acquisition pursuant to an Earnout Agreement entered into in connection with the acquisition. At the end of fiscal 2011, the Company accrued \$14.8 million as an adjustment to goodwill which was paid during the first quarter of fiscal 2012.

Following the acquisition of Orthodyne, wedge bonder products were added to the Equipment business.

#### ***Intangible Assets***

Intangible assets with determinable lives are amortized over their estimated useful lives. The Company's intangible assets consist primarily of wedge bonder developed technology and customer relationships.

The following table reflects net intangible assets as of December 29, 2012 and September 29, 2012:

| (dollar amounts in thousands)            | As of<br>December 31, 2012 | September 29, 2012 | Average estimated<br>useful lives ( <i>in years</i> ) |
|--|----------------------------|--------------------|---|
| Wedge bonder developed technology        | \$33,200                   | \$ 33,200          | 7.0   |
| Accumulated amortization                 | (20,158)                   | (18,973)           | )   |
| Net wedge bonder developed technology    | 13,042                     | 14,227             |   |
| Wedge bonder customer relationships      | 19,300                     | 19,300             | 5.0   |
| Accumulated amortization                 | (16,405)                   | (15,440)           | )   |
| Net wedge bonder customer relationships  | 2,895                      | 3,860              |   |
| Wedge bonder trade name                  | 4,600                      | 4,600              | 8.0   |
| Accumulated amortization                 | (2,445 )                   | (2,300 )           | )   |
| Net wedge bonder trade name              | 2,155                      | 2,300              |   |
| Wedge bonder other intangible assets     | 2,500                      | 2,500              | 1.9   |
| Accumulated amortization                 | (2,500 )                   | (2,500 )           | )   |
| Net wedge bonder other intangible assets | -                          | -                  |   |
| Net intangible assets                    | \$18,092                   | \$ 20,387          |   |

The following table reflects estimated annual amortization expense related to intangible assets as of December 29, 2012:

| (in thousands)             | As of<br>December, 29, 2012 |
|----------------------------|-----------------------------|
| Remaining fiscal 2013      | \$ 6,883                    |
| Fiscal 2014                | 5,318                       |
| Fiscal 2015                | 5,318                       |
| Fiscal 2016                | 573                         |
| Total amortization expense | \$ 18,092                   |

#### **NOTE 4: DEBT AND OTHER OBLIGATIONS**

##### ***Bank Guarantee***

On May 9, 2012, Kulicke & Soffa Pte Ltd. (“Pte”), the Company’s wholly owned subsidiary, obtained a bank guarantee (“Bank Guarantee”) from DBS Bank Ltd. in the amount of \$3.4 million Singapore dollars. Pte furnished the Bank Guarantee to Mapletree Industrial Trust in lieu of a cash deposit in connection with building and leasing of a new facility in Singapore.

##### ***0.875% Convertible Subordinated Notes***

The following table reflects amortization expense related to issue costs from the Company’s Convertible Subordinated Notes for the three months ended December 31, 2011:

| (in thousands)                              | Three months ended<br>December 31, 2011 |
|---|---|
| Amortization expense related to issue costs | \$ 147                                  |

The 0.875% Convertible Subordinated Notes (the “Notes”) matured on June 1, 2012. Prior to maturity, holders of the Notes were entitled to convert their notes based on an initial conversion rate of approximately 69.6621 shares per \$1,000 principal amount of notes (equal to an initial conversion price of approximately \$14.355 per share, subject to adjustment for certain events) only under specific circumstances. The Company had the option to elect to satisfy the conversion obligations in cash, common stock or a combination thereof. The Company repaid the entire principal

balance of the Notes of \$110.0 million plus interest of \$0.5 million in cash in fiscal 2012. No common shares were issued in connection with repayment of the Notes.

The Notes were not redeemable at the Company's option. Holders of the Notes did not have the right to require the Company to repurchase their Notes prior to maturity except in connection with the occurrence of certain fundamental change transactions. The Notes could have been accelerated upon an event of default as described in the Indenture and would have been accelerated upon bankruptcy, insolvency, appointment of a receiver and similar events with respect to the Company.

The Company adopted ASC 470.20, *Debt, Debt with Conversion Options*, which requires that issuers of convertible debt that may be settled in cash upon conversion record the liability and equity components of the convertible debt separately. The liability component of the Company's Notes was classified as debt and the equity component of the Notes was classified as common stock on the Company's Consolidated Balance Sheets.

#### **NOTE 5: SHAREHOLDERS' EQUITY AND EMPLOYEE BENEFIT PLANS**

##### ***Common Stock and 401(k) Retirement Income Plan***

The Company has a 401(k) retirement income plan (the "Plan") for its employees. Historically, the Company's matching contributions to the Plan were made in the form of issued and contributed shares of Company common stock; however, beginning January 2, 2011, matching contributions to the Plan are made in cash instead of stock. The Plan allows for employee contributions and matching Company contributions up to 4% or 6% of the employee's contributed amount, based upon years of service.



The following table reflects the Company's matching contributions to the Plan which were made in the form of cash during the three months ended December 29, 2012 and December 31, 2011:

|                | Three months ended |                   |
|----------------|--------------------|-------------------|
| (in thousands) | December 29, 2012  | December 31, 2011 |
| Cash           | \$ 723             | \$ 246            |

### ***Accumulated Other Comprehensive Income***

The following table reflects accumulated other comprehensive income reflected on the Consolidated Balance Sheets as of December 29, 2012 and September 29, 2012:

| (in thousands)  | As of             |                    |
|---|-------------------|--------------------|
|   | December 29, 2012 | September 29, 2012 |
| Gain from foreign currency translation adjustments                | \$ 3,707          | \$ 2,996           |
| Unrecognized actuarial gain, Switzerland pension plan, net of tax | (244 )            | (227 )             |
| Switzerland pension plan curtailment                              | (388 )            | (388 )             |
| Accumulated other comprehensive income                            | \$ 3,075          | \$ 2,381           |

### ***Equity-Based Compensation***

As of December 29, 2012, the Company had seven equity-based employee compensation plans (the "Employee Plan") and three director compensation plans (the "Director Plans") (collectively, the "Plans"). Under these Plans, market-based share awards (collectively, "market-based restricted stock"), time-based share awards (collectively, "time-based restricted stock"), performance-based share awards (collectively, "performance-based restricted stock"), stock options or common stock have been granted at 100% of the market price of the Company's common stock on the date of grant. As of December 29, 2012, the Company's one active plan, the 2009 Equity Plan, had 4.5 million shares of common stock available for grant to its employees and directors.

Market-based restricted stock entitles the employee to receive common shares of the Company on the award vesting date, if market performance objectives which measure relative total shareholder return ("TSR") are attained. Relative TSR is calculated based upon the 90-calendar day average price of the Company's stock as compared to specific peer companies that comprise the Philadelphia Semiconductor Index. TSR is measured for the Company and each peer company over a performance period, which is generally three years. Vesting percentages range from 0% to 200% of awards granted. The provisions of the market-based restricted stock are reflected in the grant date fair value of the award; therefore, compensation expense is recognized regardless of whether or not the market condition is ultimately

satisfied. Compensation expense is reversed if the award is forfeited prior to the vesting date.

In general, stock options and time-based restricted stock awarded to employees vest annually over a three year period provided the employee remains employed. The Company follows the non-substantive vesting method for stock options and recognizes compensation expense immediately for awards granted to retirement eligible employees, or over the period from the grant date to the date retirement eligibility is achieved.

In general, performance-based restricted stock (“PSU”) entitles the employee to receive common shares of the Company on the three-year anniversary of the grant date (if employed by the Company) if return on invested capital and revenue growth targets set by the Management Development and Compensation Committee (“MDCC”) of the Board of Directors on the date of grant are met. If return on invested capital and revenue growth targets are not met, performance-based restricted stock does not vest. Certain PSUs vest based on achievement of strategic goals over a certain time period or periods set by the MDCC. If the strategic goals are not achieved, the PSUs do not vest.

Equity-based compensation expense recognized in the Consolidated Statements of Operations for the three months ended December 29, 2012 and December 31, 2011 was based upon awards ultimately expected to vest. In accordance with ASC No. 718, *Stock Based Compensation*, forfeitures have been estimated at the time of grant and were based upon historical experience. The Company reviews the forfeiture rates periodically and makes adjustments as necessary.

The following table reflects restricted stock and common stock granted during the three months ended December 29, 2012 and December 31, 2011:

| (shares in thousands)               | Three months ended |                   |
|-------------------------------------|--------------------|-------------------|
|                                     | December 29, 2012  | December 31, 2011 |
| Market-based restricted stock       | 343                | 428               |
| Time-based restricted stock         | 528                | 686               |
| Performance-based restricted stock  | 57                 | -                 |
| Common stock                        | 20                 | 25                |
| Equity-based compensation in shares | 948                | 1,139             |

The following table reflects total equity-based compensation expense, which includes restricted stock, stock options and common stock, included in the Consolidated Statements of Operations during the three months ended December 29, 2012 and December 31, 2011:

| (in thousands)                          | Three months ended |                   |
|---|--------------------|-------------------|
|   | December 29, 2012  | December 31, 2011 |
| Cost of sales                           | \$ 148             | \$ 85             |
| Selling, general and administrative     | 2,326              | 1,611             |
| Research and development                | 727                | 403               |
| Total equity-based compensation expense | \$ 3,201           | \$ 2,099          |

The following table reflects equity-based compensation expense, by type of award, for the three months December 29, 2012 and December 31, 2011:

| (in thousands)                          | Three months ended |                   |
|---|--------------------|-------------------|
|   | December 29, 2012  | December 31, 2011 |
| Market-based restricted stock           | \$ 1,225           | \$ 598            |
| Time-based restricted stock             | 1,732              | 1,140             |
| Performance-based restricted stock      | 9                  | 172               |
| Stock options                           | 25                 | 9                 |
| Common stock                            | 210                | 180               |
| Total equity-based compensation expense | \$ 3,201           | \$ 2,099          |

### ***Pension Plan***

In accordance with regulations in Switzerland, the Company sponsors a Switzerland pension plan covering active employees whose minimum benefits are guaranteed. During fiscal 2012, the Company announced the intention to reduce its Switzerland workforce by approximately 41 employees, which triggered a curtailment of the Switzerland pension plan under ASC No. 715, Topic 30, *Compensation – Retirement Benefits, Defined Benefit Plans*. As a result, the Company recognized a pretax curtailment and settlement gain of \$1.8 million during the first quarter of fiscal 2012.

### *Other Plans*

Some of the Company's other foreign subsidiaries have retirement plans that are integrated with and supplement the benefits provided by laws of the various countries. These other plans are not required to report nor do they determine the actuarial present value of accumulated benefits or net assets available for plan benefits as they are defined contribution plans.

### **NOTE 6: EARNINGS PER SHARE**

Basic income (loss) per share is calculated using the weighted average number of shares of common stock outstanding during the period. In addition, net income applicable to participating securities and the related participating securities are excluded from the computation of basic income per share.

Diluted income per share is calculated using the weighted average number of shares of common stock outstanding during the period and, if there is net income during the period, the dilutive impact of common stock equivalents outstanding during the period. In computing diluted income per share, if convertible debt is assumed to be converted to common shares, the after-tax amount of interest expense recognized in the period associated with the convertible debt is added back to net income.

As of October 1, 2011, the Company had the Notes that would not result in the issuance of any dilutive shares, since the conversion option was not “in the money” as of October 1, 2011. The Notes matured on June 1, 2012. The Company repaid the entire principal balance of the Notes of \$110.0 million plus interest of \$0.5 million in cash. No common shares were issued in connection with repayment of the Notes. Accordingly, diluted EPS excludes the effect of the conversion of the Notes.

The following tables reflect a reconciliation of the shares used in the basic and diluted net income per share computation for the three months ended December 29, 2012 and December 31, 2011:

| (in thousands, except per share)                    | Three months ended |         |                   |           |
|---|--------------------|---------|-------------------|-----------|
|   | December 29, 2012  |         | December 31, 2011 |           |
|   | Basic              | Diluted | Basic             | Diluted   |
| <b>NUMERATOR:</b>                                   |                    |         |                   |           |
| Net income  | \$3,604            | \$3,604 | \$8,507           | \$8,507   |
| Less: income applicable to participating securities | -                  | -       | (20 )             | (20 )     |
| Net income applicable to common shareholders        | \$3,604            | \$3,604 | \$8,487           | \$8,487   |
| <b>DENOMINATOR:</b>                                 |                    |         |                   |           |
| Weighted average shares outstanding - Basic         | 74,852             | 74,852  | 73,540            | 73,540    |
| Stock options                                       |                    | 105     |                   | 104       |
| Time-based restricted stock                         |                    | 430     |                   | 457       |
| Market-based restricted stock                       |                    | 822     |                   | 527       |
| Weighted average shares outstanding - Diluted (1)   |                    | 76,209  |                   | 74,628    |
| <b>EPS:</b>   |                    |         |                   |           |
| Net income per share - Basic                        | \$0.05             | \$0.05  | \$0.12            | \$0.12    |
| Effect of dilutive shares                           |                    | -       |                   | \$(0.01 ) |
| Net income per share - Diluted                      |                    | \$0.05  |                   | \$0.11    |

<sup>1</sup> For the three months ended December 29, 2012 and December 31, 2011, excludes 0 and 10 dilutive participating securities, respectively, as the income attributable to these shares was not included in EPS.

For the three months ended December 29, 2012 and December 31, 2011, 0.0 million and 0.3 million potentially dilutive shares related to out of the money stock options, respectively, were excluded from EPS.

**NOTE 7: INCOME TAXES**

The following table reflects the provision for income taxes and the effective tax rate for the three months ended December 29, 2012 and December 31, 2011:

| (dollar amounts in thousands)              | Three months ended |                   |
|--|--------------------|-------------------|
|  | December 29, 2012  | December 31, 2011 |
| Income from operations before income taxes | \$ 4,379           | \$ 10,484         |
| Provision for income taxes                 | 775                | 1,977             |
| Net income                                 | \$ 3,604           | \$ 8,507          |
| Effective tax rate                         | 17.7 %             | 18.9 %            |

For the three months ended December 29, 2012 and December 31, 2011, the effective income tax rate differed from the federal statutory rate primarily due to tax from foreign operations at a lower effective tax rate than the U.S. statutory rate and the impact of tax holidays, offset by an increase for deferred taxes on un-remitted earnings as well as other U.S. current and deferred taxes.

During the three months ended December 29, 2012, the effective income tax rate increased as compared to the effective tax rate for the fiscal year ended September 29, 2012 due to the recording of a valuation allowance against certain deferred tax assets.

The Company's future effective tax rate would be affected if earnings were lower than anticipated in countries where it has lower statutory rates and higher than anticipated in countries where it has higher statutory rates, by changes in the valuation of its deferred tax assets and liabilities, or by changes in tax laws, regulations, accounting principles, or interpretations thereof. The Company regularly assesses the effects resulting from these factors to determine the adequacy of its provision for income taxes.

**NOTE 8: SEGMENT INFORMATION**

The Company operates two reportable segments: Equipment and Expendable Tools. The Equipment segment manufactures and sells a line of ball bonders, heavy wire wedge bonders and die bonders that are sold to semiconductor device manufacturers, their outsourced semiconductor assembly and test subcontractors, other electronics manufacturers and automotive electronics suppliers. The Company also services, maintains, repairs and upgrades its equipment. The Expendable Tools segment manufactures and sells a variety of expendable tools for a

broad range of semiconductor packaging applications.



The following table reflects operating information by segment for the three months ended December 29, 2012 and December 31, 2011:

| (in thousands)          | Three months ended |                   |
|-------------------------|--------------------|-------------------|
|                         | December 29, 2012  | December 31, 2011 |
| Net revenue:            |                    |                   |
| Equipment               | \$99,902           | \$ 106,149        |
| Expendable Tools        | 14,137             | 13,875            |
| Net revenue             | 114,039            | 120,024           |
| Cost of sales :         |                    |                   |
| Equipment               | 56,432             | 59,004            |
| Expendable Tools        | 6,082              | 5,744             |
| Cost of sales           | 62,514             | 64,748            |
| Gross profit :          |                    |                   |
| Equipment               | 43,470             | 47,145            |
| Expendable Tools        | 8,055              | 8,131             |
| Gross profit            | 51,525             | 55,276            |
| Operating expenses:     |                    |                   |
| Equipment               | 41,725             | 37,268            |
| Expendable Tools        | 5,595              | 5,632             |
| Operating expenses      | 47,320             | 42,900            |
| Income from operations: |                    |                   |
| Equipment               | 1,745              | 9,877             |
| Expendable Tools        | 2,460              | 2,499             |
| Income from operations  | \$4,205            | \$ 12,376         |

The following table reflects assets by segment as of December 29, 2012 and September 29, 2012:

| (in thousands)   | As of             |                    |
|------------------|-------------------|--------------------|
|                  | December 29, 2012 | September 29, 2012 |
| Segment assets:  |                   |                    |
| Equipment        | \$679,556         | \$ 746,636         |
| Expendable Tools | 89,932            | 68,973             |
| Total assets     | \$769,488         | \$ 815,609         |

The following tables reflect capital expenditures and depreciation expense for the three months ended December 29, 2012 and December 31, 2011:

| (in thousands)        | Three months ended |                   |
|-----------------------|--------------------|-------------------|
|                       | December 29, 2012  | December 31, 2011 |
| Capital expenditures: |                    |                   |
| Equipment             | \$ 779             | \$ 1,187          |
| Expendable Tools      | 837                | 311               |
| Capital expenditures  | \$ 1,616           | \$ 1,498          |
| Depreciation expense  |                    |                   |
| Equipment             | \$ 1,896           | \$ 1,400          |
| Expendable Tools      | 611                | 563               |
| Depreciation expense  | \$ 2,507           | \$ 1,963          |

#### **NOTE 9: COMMITMENTS, CONTINGENCIES AND CONCENTRATIONS**

##### ***Agreement to Develop and Lease***

On May 7, 2012, Pte entered into the ADL and a Lease Agreement with DBS Trustee Limited as trustee of Mapletree Industrial Trust (the "Landlord"). Pursuant to the ADL, the Landlord agreed to develop a building at Lot 17622A Pt Mukim 18 at Serangoon North Avenue 5 (the "Building") and Pte agreed to lease from the Landlord 198,134 square feet (the "Initial Premises") representing approximately 69% of the Building. The Building is expected to be completed and ready for occupancy in the second half of 2013. Subject to approval from the relevant authorities, the Building will bear a name to be chosen by Pte.

##### ***Warranty Expense***

The Company's equipment is generally shipped with a one-year warranty against manufacturing defects. The Company establishes reserves for estimated warranty expense when revenue for the related equipment is recognized. The reserve for estimated warranty expense is based upon historical experience and management's estimate of future expenses.

The following table reflects the reserve for product warranty activity for the three months ended December 29, 2012 and December 31, 2011:

| (in thousands)                                    | Three months ended |                   |
|---|--------------------|-------------------|
|   | December 29, 2012  | December 31, 2011 |
| Reserve for product warranty, beginning of period | \$ 2,412           | \$ 2,245          |
| Provision for product warranty                    | 65                 | 174               |
| Product warranty costs paid                       | (793 )             | (805 )            |
| Reserve for product warranty, end of period       | \$ 1,684           | \$ 1,614          |

***Other Commitments and Contingencies***

The following table reflects obligations not reflected on the Consolidated Balance Sheet as of December 29, 2012:

| (in thousands)                   | Total    | Payments due by fiscal year |         |         |         |                     |
|----------------------------------|----------|-----------------------------|---------|---------|---------|---------------------|
|                                  |          | 2013                        | 2014    | 2015    | 2016    | 2015 and thereafter |
| Inventory purchase obligation(1) | \$62,953 | \$62,953                    | \$-     | \$-     | \$-     | \$-                 |
| Operating lease obligations(2)   | \$25,669 | \$5,976                     | \$3,582 | \$3,152 | \$2,470 | \$ 10,489           |
| Total                            | \$88,622 | \$68,929                    | \$3,582 | \$3,152 | \$2,470 | \$ 10,489           |

- (1) We order inventory components in the normal course of our business. A portion of these orders are non-cancelable and a portion may have varying penalties and charges in the event of cancellation.

We have minimum rental commitments under various leases (excluding taxes, insurance, maintenance and repairs, (2) which are also paid by us) primarily for various facility and equipment leases, which expire periodically through 2018 (not including lease extension options, if applicable).

Pursuant to ASC No. 840, *Leases*, for lessee's involvement in asset construction, the Company is considered the owner of the building during the construction phase of the ADL. As of December 29, 2012, the Company has recorded a financing obligation of \$4.4 million related to the building and is expected to record an additional \$20.4 million over the construction term, which is expected to be completed in the next twelve months. The financing obligation is not reflected in the table above.

Under the lease agreement contemplated by the ADL, (the "Lease Agreement"), the term for the rental of the Initial Premises is expected to be 10 years, (the "Initial Term"). Pte will have the option to renew for two additional ten-year terms. The combined annual rent and service charge for the Initial Term will range between approximately \$4.0 to \$5.0 million Singapore dollars. Subject to renting a minimum amount of space, Pte will have a right of first refusal for all space that becomes available in the Building, and the Landlord has agreed to make available a certain amount of additional space for rental at Pte's option which may be exercised at certain points during the second half of the Initial Term. Subject to renting a minimum amount of space for a certain period, Pte will have partial surrender rights. In addition, Pte will have termination rights after renting the Initial Premises for a certain period of time. The Lease Agreement is not in effect as of the date of this report and is not reflected in the above table.

### *Concentrations*

The following tables reflect significant customer concentrations as a percentage of net revenue for the three months ended December 29, 2012 and December 31, 2011:

|                                    | Three months ended |   |                   |   |
|------------------------------------|--------------------|---|-------------------|---|
|                                    | December 29, 2012  |   | December 31, 2011 |   |
| Advanced Semiconductor Engineering | 12.7               | % | 15.3              | % |
| STATS ChipPAC Ltd                  | 11.1               | % | *                 |   |
| Haoseng Industrial Company Limited | *                  |   | 10.0              | % |

\* Represents less than 10% of net revenue

The following table reflects significant customer concentrations as a percentage of total accounts receivable as of December 29, 2012 and December 31, 2011:

|  | As of             |                   |
|--|-------------------|-------------------|
|  | December 29, 2012 | December 31, 2011 |

|                                    |      |   |      |   |
|------------------------------------|------|---|------|---|
| Haoseng Industrial Company Limited | 23.6 | % | 15.0 | % |
| STATS ChipPAC Ltd                  | 13.0 | % | *    |   |
| Advanced Semiconductor Engineering | *    |   | 17.7 | % |

\* Represents less than 10% of total accounts receivable

## Item 2. - MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### Forward-Looking Statements

*In addition to historical information, this filing contains statements relating to future events or our future results. These statements are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933, as amended and Section 21E of the Securities Exchange Act of 1934, as amended and are subject to the safe harbor provisions created by statute. Such forward-looking statements include, but are not limited to, our future revenue, sustained, increasing, continuing or strengthening demand for our products, the continuing transition from gold to copper wire bonding, replacement demand, our research and development efforts, our ability to identify and realize new growth opportunities, our ability to control costs and our operational flexibility as a result of (among other factors):*

*projected growth rates in the overall semiconductor industry, the semiconductor assembly equipment market, and the market for semiconductor packaging materials; and*  
*projected demand for ball, wedge and die bonder equipment and for expendable tools.*

*Generally, words such as “may,” “will,” “should,” “could,” “anticipate,” “expect,” “intend,” “estimate,” “plan,” “continue,” “believe,” or the negative of or other variations on these and other similar expressions identify forward-looking statements. These forward-looking statements are made only as of the date of this filing. We do not undertake to update or revise the forward-looking statements, whether as a result of new information, future events or otherwise.*

*Forward-looking statements are based on current expectations and involve risks and uncertainties. Our future results could differ significantly from those expressed or implied by our forward-looking statements. These risks and uncertainties include, without limitation, those described below and under the heading “Risk Factors” in our Annual Report on Form 10-K for the fiscal year ended September 29, 2012 (the “Annual Report”) and our other reports and registration statements filed from time to time with the Securities and Exchange Commission. This discussion should be read in conjunction with the Consolidated Financial Statements and Notes included in this report, as well as our audited financial statements included in the Annual Report.*

*We operate in a rapidly changing and competitive environment. New risks emerge from time to time and it is not possible for us to predict all risks that may affect us. Future events and actual results, performance and achievements could differ materially from those set forth in, contemplated by or underlying the forward-looking statements, which speak only as of the date on which they were made. Except as required by law, we assume no obligation to update or revise any forward-looking statement to reflect actual results or changes in, or additions to, the factors affecting such forward-looking statements. Given those risks and uncertainties, investors should not place undue reliance on*

*forward-looking statements as predictions of actual results.*

## **OVERVIEW**

Kulicke and Soffa Industries, Inc. (the “Company” or “K&S”) designs, manufactures and sells capital equipment and expendable tools used to assemble semiconductor devices, including integrated circuits (“IC”), high and low powered discrete devices, light-emitting diodes (“LEDs”), and power modules. We also service, maintain, repair and upgrade our equipment. Our customers primarily consist of semiconductor device manufacturers, outsourced semiconductor assembly and test providers (“OSATs”), other electronics manufacturers and automotive electronics suppliers.

We operate two main business segments, Equipment and Expendable Tools. Our goal is to be the technology leader and the most competitive supplier in terms of cost and performance in each of our major product lines. Accordingly, we invest in research and engineering projects intended to enhance our position at the leading edge of semiconductor assembly technology. We also remain focused on our cost structure, through consolidating our manufacturing facilities. Cost reduction efforts are an important part of our normal ongoing operations, and are expected to generate savings without compromising overall product quality and service levels.

## Business Environment

The semiconductor business environment is highly volatile, driven by internal dynamics, both cyclical and seasonal, in addition to macroeconomic forces. Over the long term, semiconductor consumption has historically grown, and is forecast to continue to grow. This growth is driven, in part, by regular advances in device performance and by price declines that result from improvements in manufacturing technology. In order to exploit these trends, semiconductor manufacturers, both integrated device manufacturers (“IDMs”) and OSATs, periodically invest aggressively in latest generation capital equipment. This buying pattern often leads to periods of excess supply and reduced capital spending — the so called semiconductor cycle. Within this broad semiconductor cycle there are also, generally weaker, seasonal effects that are specifically tied to annual, end-consumer purchasing patterns. Typically, semiconductor manufacturers prepare for heightened demand by adding or replacing equipment capacity by the end of the September quarter. Occasionally this results in subsequent reductions in the December quarter. This annual seasonality can occasionally be overshadowed by effects of the broader semiconductor cycle. Macroeconomic factors also affect the industry, primarily through their effect on business and consumer demand for electronic devices, as well as other products that have significant electronic content such as automobiles, white goods, and telecommunication equipment.

Our Equipment segment is primarily affected by the industry’s internal cyclical and seasonal dynamics, in addition to broader macroeconomic factors that positively and negatively affect our financial performance. The sales mix of IDM and OSAT customers in any period also impacts financial performance as this mix can affect our products’ average selling prices and gross margins due to differences in volume purchases and machine configurations required by each customer type.

Our Expendable Tools segment is less volatile than our Equipment segment. Expendable Tools sales are more directly tied to semiconductor unit consumption rather than capacity requirements and production capability improvements.

We continue to position our business to leverage our research and development leadership and innovation and to focus our efforts on mitigating volatility, improving profitability and ensuring longer-term growth. We remain focused on operational excellence, expanding our product offerings and managing our business efficiently throughout the business cycles. The current economic environment is uncertain and we may experience typical industry seasonality during the second quarter of fiscal 2013. Our visibility into future demand is generally limited and forecasting is difficult.

To limit potential adverse cyclical, seasonal and macroeconomic effects on our financial position, we have de-leveraged and strengthened our balance sheet. In fiscal 2012, we fully repaid our 0.875% Convertible Subordinated Notes (the “Notes”) with cash in the principal amount of \$110.0 million at maturity. As of December 29, 2012, our total cash, cash equivalents and investments was \$494.2 million, a \$53.9 million increase from the prior fiscal year end. We believe this strong cash position will allow us to continue to invest in product development and improve our production capability throughout the semiconductor cycle.



## Technology Leadership

We compete largely by offering our customers among the most advanced equipment and expendable tools available for the wire, wedge and die bonding processes. Our equipment is the most productive and has the highest levels of process capability, and as a result, has lower cost of ownership compared to other equipment in its market. Our expendable tools are designed to optimize the performance of the equipment in which they are used. We believe our technology leadership contributes to the leading market share positions of our various wire bonder and expendable tools products. To maintain our competitive advantage, we invest in product development activities designed to produce a stream of improvements to existing products and to deliver next-generation products. These investments often focus as much on improvements in the semiconductor assembly process as on specific pieces of assembly equipment or expendable tools. In order to generate these improvements, we often work in close collaboration with customers, end users, and other industry members. In addition to producing technical advances, these collaborative development efforts strengthen customer relationships and enhance our reputation as a technology leader and solutions provider.

In addition to gold and aluminum wire, our leadership in the industry's use of copper wire for the bonding process is an example of the benefits of our collaborative efforts. By working with customers, material suppliers, and other equipment suppliers, we have developed a series of robust, high-yielding production processes that have made copper wire commercially viable, significantly reducing the cost of assembling an integrated circuit. During fiscal 2010, many of our customers began converting their bonding wire from gold to copper wire, and we believe the conversion was accelerated by fabless companies in the consumer segment. Gradually, the level of confidence and the reliability of data collected have enabled a larger segment of the customer base to increase copper capabilities. Since this initial conversion, a significant portion of our wire bonder sales are copper capable bonders. We expect this conversion process to continue throughout the industry for the next several years. This could potentially drive a significant wire bonder replacement cycle, as we believe much of the industries' installed base is not currently suitable for copper bonding. Based on our industry leading copper bonding processes and the continued high price of gold, we believe the total available market for copper configured wire bonders is likely to continue demonstrating solid growth.

Our leadership has allowed us to maintain a competitive position in the latest generations of gold and copper ball bonders, which enable our customers to handle the leading technologies in terms of pitch, silicon with the latest node and complex wire bonding requirement. We continue to see demand for our large bondable area ("LA") configured machines. This LA option is now available on all of our *Power Series* ("P<sub>S</sub>") models and allows our customers to gain added efficiencies and to reduce the cost of packaging.

We also leverage the technology leadership of our equipment by optimizing our bonder platforms, and we deliver variants of our products to serve emerging high-growth markets. For example, we have developed extensions of our main ball bonding platforms to address opportunities in LED assembly. In the last few years, the LED backlights for flat-screen displays have been the main driver of the LED market where we have successfully competed in LED assembly equipment. We expect the next wave of growth in the LED market to be high brightness LED for general lighting, and we believe we are well positioned for this trend.

Furthermore, we gain synergies by leveraging technologies between our unique platforms. Our leading technology for wedge bonder equipment uses aluminum ribbon or heavy wire as opposed to fine gold and fine copper wire used in ball bonders. We are in the process of launching a new line of high performance wedge bonder products for the power semiconductor market in the coming months, capable of bonding aluminum ribbon, as well as thin and heavy aluminum wire. We intend to initiate design of our next power module wedge bonder. In both cases, we are making a conscious effort to develop commonality of subsystems and design practices, in order to improve performance and design efficiencies. We believe this will benefit us in maintaining our leadership position in the wedge bonding market and increase synergies between the various engineering product groups. Furthermore, we continually research adjacent market segments where our technologies could be used. As an example, we are reviewing the use of wedge bonding in the fabrication of solar panels. Many of these initiatives are in the early stages of development and may become business opportunities in the future.

Another example of our developing equipment for high-growth niche markets is our ATPremier. This machine utilizes a modified wire bonding process to mechanically place bumps on devices in a wafer format, for variants of the flip chip assembly process. Typical applications include complementary metal-oxide semiconductor (“CMOS”) image sensors, surface acoustical wave (“SAW”) filters and high brightness LEDs. These applications are commonly used in most, if not all, smartphones available today in the market. We also expanded the use of ATPremier for wafer level wire bonding for Micro-Electro-Mechanical Systems (“MEMS”) and other sensors.

Our focus on technology leadership also extends to die bonding. The best-in-class throughput and accuracy of our iStack<sup>PS</sup> die bonder forms the foundation for our advanced packaging development. We are establishing a development team to develop advanced packaging bonders for the emerging three-dimensional intergrated circuit (“3DIC”) market. 3D IC saves space by stacking separate chips in a single package. It also improves performance while reducing power consumption. Mobile devices such as smartphones and tablets are the main drivers of this market.

We bring the same technology focus to our expendable tools business, driving tool design and manufacturing technology to optimize the performance and process capability of the equipment in which our tools are used. For all our equipment products, expendable tools are an integral part of their process capability. We believe our unique ability to simultaneously develop both equipment and tools is a core strength supporting our products’ technological differentiation.

**Products and Services**

We supply a range of bonding equipment and expendable tools. The following table reflects net revenue by business segment for the three months ended December 29, 2012 and December 31, 2011, respectively:

| (dollar amounts in thousands) | Three months ended<br>December 29, 2012 |                           | December 31, 2011 |                           |   |
|-------------------------------|---|---------------------------|-------------------|---------------------------|---|
|                               | Net revenues                            | % of total net<br>revenue | Net revenues      | % of total net<br>revenue |   |
| Equipment                     | \$99,902                                | 87.6                      | % \$ 106,149      | 88.4                      | % |
| Expendable Tools              | 14,137                                  | 12.4                      | % 13,875          | 11.6                      | % |
|                               | \$114,039                               | 100.0                     | % \$ 120,024      | 100.0                     | % |

See Note 8 to our Consolidated Financial Statements included in Item 1 of this report for our financial results by business segment.

## **Equipment Segment**

We manufacture and sell a line of ball bonders, heavy wire wedge bonders, wafer level bonders, and die bonders that are sold to semiconductor device manufacturers, OSATs, other electronics manufacturers and automotive electronics suppliers. Ball bonders are used to connect very fine wires, typically made of gold or copper, between the bond pads of the semiconductor device, or die, and the leads on its package. Wedge bonders use either aluminum wire or ribbon to perform the same function in packages that cannot use gold or copper wire because of either high electrical current requirements or other package reliability issues. Wafer level bonders mechanically apply bumps to die, typically while still in the wafer format, for some variants of the flip chip assembly process. Die bonders are used to attach a die to the substrate or lead frame which will house the semiconductor device. We believe our equipment offers competitive advantages by providing customers with high productivity/throughput, superior package quality/process control, and as a result, a lower cost of ownership.

Our principal Equipment segment products include:

| Business Unit  | Product Name (1)                          | Typical Served Market  |
|----------------|---|--|
| Ball bonders   | IConn <sup>PS</sup>                       | Advanced and ultra fine pitch applications   |
|                | IConn <sup>PS</sup> ProCu                 | High-end copper wire applications demanding advanced process capability and high productivity    |
|                | IConn <sup>PS</sup> ProCu LA              | Large area substrate and matrix applications for copper wire                                     |
|                | IConn <sup>PS</sup> LA                    | Large area substrate and matrix applications   |
|                | ConnX <sup>PS</sup>                       | Cost performance, low pin count applications   |
|                | ConnX <sup>PS</sup> Plus                  | Second generation cost performance, low pin count applications                                   |
|                | ConnX <sup>PS</sup> LED                   | LED applications   |
|                | ConnX <sup>PS</sup> VLED                  | Vertical LED applications  |
|                | ConnX <sup>PS</sup> LA                    | Cost performance large area substrate and matrix applications                                    |
|                | ATPremier                                 | Wafer level bonding applications   |
| ATPremier Plus | Advanced wafer level bonding applications |  |
| Wedge bonders  | 3600Plus                                  | Power hybrid and automotive modules using either heavy aluminum wire or PowerRibbon®             |
|                | 3700Plus                                  | Hybrid and automotive modules using thin aluminum wire   |
|                | 7200Plus                                  | Power semiconductors using either aluminum wire or PowerRibbon®                                  |
|                | 7200HD                                    | Smaller power packages using either aluminum wire or PowerRibbon®                                |
|                | 7600HD                                    | Power semiconductors including smaller power packages using either aluminum wire or PowerRibbon® |
| Die bonder     | iStack <sup>PS</sup>                      | Advanced stacked die and ball grid array applications  |

(1) *Power Series* (“PS”)



### ***Ball Bonders***

Automatic ball bonders represent the largest portion of our semiconductor equipment business. Our main product platform for ball bonding is the Power Series (“*P*”)— a family of assembly equipment that is setting new standards for performance, productivity, upgradeability, and ease of use. Our Power Series consists of our IConn<sup>PS</sup> high-performance ball bonders and our ConnX<sup>PS</sup> cost-performance ball bonders, both of which can be configured for either gold or copper wire. In addition, targeted specifically at the fast growing LED market, the Power Series includes our ConnX<sup>PS</sup> LED and our ConnX<sup>PS</sup> VLED. Targeted for large bondable area applications, the Power Series includes our IConn<sup>PS</sup> LA and ConnX<sup>PS</sup> LA. In November 2010 and January 2011, we introduced the IConn<sup>PS</sup> ProCu, IConn<sup>PS</sup> ProCu LA, respectively, which offer a significant new level of capability for customers transitioning from gold to copper wire bonding. In March 2012, we introduced ConnX<sup>PS</sup> *Plus* next-generation cost-performance ball bonders.

Our Power Series products have advanced industry performance standards. Our ball bonders are capable of performing very fine pitch bonding, as well as creating the sophisticated wire loop shapes needed in the assembly of advanced semiconductor packages. Our ball bonders can also be converted for use to copper applications through kits we sell separately, a capability that is increasingly important as bonding with copper continues to grow as an alternative to gold.

Our ATPremier machine utilizes a modified wire bonding process to mechanically place bumps on devices, while still in a wafer format for variants of the flip chip assembly process. Typical applications include CMOS image sensors, SAW filters, MEMS and high brightness LEDs. These applications are commonly used in most, if not all, smartphones available today in the market. In September 2012, we introduced ATPremier *Plus*, which offer advanced stud bumping capability for low temperature gold bumping.

### ***Heavy Wire Wedge Bonders***

We are the leaders in the design and manufacture of heavy wire wedge bonders for the power semiconductor and automotive power module markets. Wedge bonders may use either aluminum wire or aluminum ribbon to connect semiconductor chips in power packages, power hybrids and automotive modules for products such as motor control modules or inverters for hybrid cars. In addition, we see some potential use for our wedge bonder products in select solar applications.

Our portfolio of wedge bonding products includes:

The 3600Plus: high speed, high accuracy wire bonders designed for power modules, automotive packages and other heavy wire multi-chip module applications.

- The 3700Plus: wire bonders designed for hybrid and automotive modules using thin aluminum wire.
- The 7200Plus: dual head wedge bonder designed specifically for power semiconductor applications.
- The 7200HD: wedge bonder designed for smaller power packages using either aluminum wire or ribbon.
- The 7600HD: wedge bonder targeted for small power packages.

While wedge bonding traditionally utilizes aluminum wire, all of our heavy wire wedge bonders are also available to be modified to bond aluminum ribbon using our proprietary PowerRibbon® process. Aluminum ribbon offers device makers performance advantages over traditional round wire and is being increasingly used for high current packages and automotive applications.

### ***Die Bonders***

Our die bonder, the iStack<sup>PS</sup>, focuses on stacked die applications for both memory and subcontract assembly customers. iStack<sup>PS</sup> is targeted at stacked die and high-end ball grid array applications. In addition, iStack<sup>PS</sup> has demonstrated superior accuracy and process control.

### ***Other Equipment Products and Services***

We also sell manual wire bonders, and we offer spare parts, equipment repair, training services, and upgrades for our equipment through our Support Services business unit. In September 2012, we introduced a next-generation manual wire bonder series for use with gold, copper or aluminum wire.

### **Expendable Tools Segment**

We manufacture and sell a variety of expendable tools for a broad range of semiconductor packaging applications. Our principal Expendable Tools segment products include:



Capillaries: expendable tools used in ball bonders. Made of ceramic and other elements, a capillary guides the wire during the ball bonding process. Its features help control the bonding process. We design and build capillaries suitable for a broad range of applications, including for use on our competitors' equipment. In addition to capillaries used for gold wire bonding, we have developed capillaries for use with copper wire to achieve optimal performance in copper wire bonding.

Bonding wedges: expendable tools used in wedge bonders. Like capillaries, their specific features are tailored to specific applications. We design and build bonding wedges for use both in our own equipment and in our competitors' equipment.

Saw blades: expendable tools used by semiconductor manufacturers to cut silicon wafers into individual semiconductor die and to cut semiconductor devices that have been molded in a matrix configuration into individual units.

## RESULTS OF OPERATIONS

The following table reflects our income from operations for the three months ended December 29, 2012 and December 31, 2011:

| (dollar amounts in thousands)       | Three months ended |                   | \$ Change   | % Change |   |
|-------------------------------------|--------------------|-------------------|-------------|----------|---|
|                                     | December 29, 2012  | December 31, 2011 |             |          |   |
| Net revenue                         | \$ 114,039         | \$ 120,024        | \$ (5,985 ) | -5.0     | % |
| Cost of sales                       | 62,514             | 64,748            | (2,234 )    | -3.5     | % |
| Gross profit                        | 51,525             | 55,276            | (3,751 )    | -6.8     | % |
| Selling, general and administrative | 29,067             | 28,752            | 315         | 1.1      | % |
| Research and development            | 18,253             | 14,148            | 4,105       | 29.0     | % |
| Operating expenses                  | 47,320             | 42,900            | 4,420       | 10.3     | % |
| Income from operations              | \$4,205            | \$ 12,376         | \$ (8,171 ) | -66.0    | % |

## Bookings and Backlog

A booking is recorded when a customer order is reviewed and it is determined that all specifications can be met, production (or service) can be scheduled, a delivery date can be set, and the customer meets our credit requirements. Our backlog consists of customer orders scheduled for shipment within the next twelve months. A majority of our orders are subject to cancellation or deferral by our customers with limited or no penalties. Also, customer demand for our products can vary dramatically without prior notice. Because of the volatility of customer demand, possibility of customer changes in delivery schedules or cancellations and potential delays in product shipments, our backlog as of any particular date may not be indicative of net revenue for any succeeding period.

The following table reflects our bookings and backlog for the three months ended December 29, 2012 and December 31, 2011:

|                | As of             |                   |
|----------------|-------------------|-------------------|
| (in thousands) | December 29, 2012 | December 30, 2011 |
| Bookings       | \$95,000          | \$ 105,000        |
| Backlog        | \$71,000          | \$ 88,000         |

### ***Net Revenue***

Approximately 97.1% and 98.0% of our net revenue for the three months ended December 29, 2012 and December 31, 2011, respectively, was for shipments to customer locations outside of the U.S., primarily in the Asia/Pacific region. We expect sales outside of the U.S. to continue to represent a substantial majority of our future revenue.

The following table reflects net revenue by business segment for the three months ended December 29, 2012 and December 31, 2011:

| <i>(dollar amounts in thousands)</i> | Three months ended |                   | \$ Change   | %      |        |
|--------------------------------------|--------------------|-------------------|-------------|--------|--------|
|                                      | December 29, 2012  | December 31, 2011 |             | Change | Change |
| Equipment                            | \$99,902           | \$ 106,149        | \$ (6,247 ) | -5.9   | %      |
| Expendable Tools                     | 14,137             | 13,875            | 262         | 1.9    | %      |
| Total net revenue                    | \$114,039          | \$ 120,024        | \$ (5,985 ) | -5.0   | %      |

*Equipment*

The following table reflects the components of Equipment net revenue change between the three months ended December 29, 2012 and December 31, 2011:

|                | December 29, 2012 vs. December 31, 2011 |             |             |
|----------------|---|-------------|-------------|
|                | Three months ended                      |             |             |
| (in thousands) | Price                                   | Volume      | \$ Change   |
| Equipment      | \$ (5,094 )                             | \$ (1,153 ) | \$ (6,247 ) |

For the three months ended December 29, 2012, the lower equipment net revenue as compared to the prior year period was primarily due to product mix and lower volume from our ball bonders and wedge bonders. The volume reduction in ball bonders and wedge bonders was mainly due to variations in the timing of our customer orders within the seasonal cycle attributable to overall softness in our key markets. Slowing demand from the end users of our customers' devices resulted in our customers cutting back their production and reducing their need for new equipment.

*Expendable Tools*

The following table reflects the components of Expendable Tools net revenue change between the three months ended December 29, 2012 and December 31, 2011:

|                  | December 29, 2012 vs. December 31, 2011 |        |           |
|------------------|---|--------|-----------|
|                  | Three months ended                      |        |           |
| (in thousands)   | Price                                   | Volume | \$ Change |
| Expendable Tools | \$ (509 )                               | \$ 771 | \$ 262    |

Expendable Tools net revenue increased 1.9% for the three months ended December 29, 2012 compared to the three months ended December 31, 2011 primarily due to volume increase in our wire bonding tools business and partially offset by lower revenue in our wedge bonder tools business. Offsetting the increase in volume was unfavorable pricing variance primarily due to product mix.

*Gross Profit*

Edgar Filing: KULICKE & SOFFA INDUSTRIES INC - Form 10-Q

The following table reflects gross profit by business segment for the three months ended December 29, 2012 and December 31, 2011:

| <i>(dollar amounts in thousands)</i> | Three months ended |                   | \$ Change   | % Change |   |
|--------------------------------------|--------------------|-------------------|-------------|----------|---|
|                                      | December 29, 2012  | December 31, 2011 |             |          |   |
| Equipment                            | \$ 43,470          | \$ 47,145         | \$ (3,675 ) | -7.8     | % |
| Expendable Tools                     | 8,055              | 8,131             | (76 )       | -0.9     | % |
| Total gross profit                   | \$ 51,525          | \$ 55,276         | \$ (3,751 ) | -6.8     | % |

The following table reflects gross profit as a percentage of net revenue by business segment for the three months ended December 29, 2012 and December 31, 2011:

|                    | Three months ended |                   | Basis Point<br>Change |
|--------------------|--------------------|-------------------|-----------------------|
|                    | December 29, 2012  | December 31, 2011 |                       |
| Equipment          | 43.5 %             | 44.4 %            | (90 )                 |
| Expendable Tools   | 57.0 %             | 58.6 %            | (160 )                |
| Total gross margin | 45.2 %             | 46.1 %            | (90 )                 |

*Equipment*

The following table reflects the components of Equipment gross profit change between the three months ended December 29, 2012 and December 31, 2011:

|                | December 29, 2012 vs. December 31, 2011 |          |        |             |
|----------------|---|----------|--------|-------------|
|                | Three months ended                      |          |        |             |
| (in thousands) | Price                                   | Cost     | Volume | \$ Change   |
| Equipment      | \$ (5,094 )                             | \$ 1,339 | \$ 80  | \$ (3,675 ) |

For the three months ended December 29, 2012, the lower Equipment gross profit as compared to the prior year period was primarily due to product mix. This less favorable pricing was partially offset by lower costs for our wedge bonders and die bonders. Wedge bonders cost was lower due to reduced manufacturing costs as a result of further rationalizing of our workforce. Sales of certain die bonders, which were partially reserved, resulted in lower costs of goods sold in the current fiscal quarter.

*Expendable Tools*

The following table reflects the components of Expendable Tools gross profit change between the three months ended December 29, 2012 and December 31, 2011:

|                  | December 29, 2012 vs. December 31, 2011 |       |        |           |
|------------------|---|-------|--------|-----------|
|                  | Three months ended                      |       |        |           |
| (in thousands)   | Price                                   | Cost  | Volume | \$ Change |
| Expendable Tools | \$ (509 )                               | \$ 38 | \$ 395 | \$ (76 )  |

Expendable Tools gross profit decreased 1.6% for the three months ended December 29, 2012 compared to the three months ended December 31, 2011 primarily due to unfavorable pricing variance due to product mix which was partially offset by volume increase in our wire bonding tools business.

*Operating Expenses*

The following table reflects operating expenses as a percentage of net revenue for the three months ended December 29, 2012 and December 31, 2011:

|                                   | Three months ended |                   |   | Basis point |
|-----------------------------------|--------------------|-------------------|---|-------------|
|                                   | December 29, 2012  | December 31, 2011 |   |             |
| Selling, general & administrative | 25.5 %             | 24.0 %            | % | 150         |
| Research & development            | 16.0 %             | 11.8 %            | % | 420         |
| Total                             | 41.5 %             | 35.8 %            | % | 570         |

### ***Selling, General and Administrative (“SG&A”)***

SG&A increased \$0.3 million during the three months ended December 29, 2012 as compared to the three months ended December 31, 2011, in which we recorded a gain of \$1.8 million relating to curtailment of our Switzerland pension plan and \$0.5 million for severance expenses which related to the downsizing of our Switzerland operations. In the first quarter of 2013, we recorded an unfavorable variance of \$1.1 million in foreign exchange rates due to the strengthening of the U.S. dollar against foreign currencies. Offsetting this was a decrease of \$1.8 million in sales commissions and incentives due to lower net revenue for the current fiscal quarter.

### ***Research and Development (“R&D”)***

R&D expense increased \$4.1 million for the three months ended December 29, 2012 as compared to the same period a year ago in which we recorded a receipt of \$0.4 million for a Research Incentive Scheme for Companies (“RISC”) grant relating to product development activities. In the first quarter of 2013, R&D expenses increased primarily due to a reversal of a RISC grant receivable of \$2.3 million of which \$1.1 million relates to an out of period adjustment. See Note 1 of Item 1 for additional details. Staff costs increased by \$1.0 million from the three months ended December 31, 2011 due to increases in additional headcount to support new product development and project based professional services, and prototype materials for product development was also higher by \$0.4 million.

***Income from Operations***

For the three months ended December 29, 2012, total income from operations was lower by \$8.2 million as compared to three months ended December 31, 2011. This was primarily due to lower revenue and margin for equipment sales and increased R&D expenses as explained above.

***Interest Income and Expense***

The following table reflects interest income and interest expense for the three months ended December 29, 2012 and December 31, 2011:

| (dollar amounts in thousands) | Three months ended |                   | \$ Change | % Change |
|-------------------------------|--------------------|-------------------|-----------|----------|
|                               | December 29, 2012  | December 31, 2011 |           |          |
| Interest income               | \$ 174             | \$ 260            | \$ (86 )  | -33.1 %  |
| Interest expense: cash        | -                  | (242)             | ) 242     | 100.0 %  |
| Interest expense: non-cash    | -                  | (1,910)           | ) 1,910   | 100.0 %  |

Interest income for the three months ended December 29, 2012 was lower as compared to the prior year period due to a one-time interest payment from a customer relating to past dues that occurred in the three months ended December, 31 2011. Non-cash interest expense for the three months ended December 31, 2011 was attributable to the amortization of the debt discount relating to the Notes which matured on June 1, 2012. We repaid the entire principal balance of the Notes in cash in fiscal 2012. See Note 4 of Item 1 for additional details.

***Provision for Income Taxes***

The following table reflects the provision for income taxes and the effective tax rate for the three months ended December 29, 2012 and December 31, 2011:

| (in thousands)                             | Three months ended |                   |
|--|--------------------|-------------------|
|  | December 29, 2012  | December 31, 2011 |
| Income from operations before income taxes | \$ 4,379           | \$ 10,484         |
| Provision for income taxes                 | 775                | 1,977             |
| Net income                                 | \$ 3,604           | \$ 8,507          |



|                    |      |   |      |   |
|--------------------|------|---|------|---|
| Effective tax rate | 17.7 | % | 18.9 | % |
|--------------------|------|---|------|---|

For the three months ended December 29, 2012 and December 31, 2011, the effective income tax rate differed from the federal statutory rate primarily due to tax from foreign operations at a lower effective tax rate than the U.S. statutory rate and the impact of tax holidays, offset by an increase for deferred taxes on un-remitted earnings as well as other U.S. current and deferred taxes.

During the three months ended December 29, 2012, the effective income tax rate increased as compared to the effective tax rate for the fiscal year ended September 29, 2012 due to the recording of a valuation allowance against certain deferred tax assets.

Our future effective tax rate would be affected if earnings were lower than anticipated in countries where we have lower statutory rates and higher than anticipated in countries where we have higher statutory rates, by changes in the valuation of our deferred tax assets and liabilities, or by changes in tax laws, regulations, accounting principles, or interpretations thereof. We regularly assess the effects resulting from these factors to determine the adequacy of our provision for income taxes.

**LIQUIDITY AND CAPITAL RESOURCES**

The following table reflects total cash and cash equivalents as of December 29, 2012 and September 29, 2012:

|                               | As of             |                    |          |
|-------------------------------|-------------------|--------------------|----------|
| (dollar amounts in thousands) | December 29, 2012 | September 29, 2012 | Change   |
| Cash and cash equivalents     | \$494,170         | \$ 440,244         | \$53,926 |
| Percentage of total assets    | 64.2 %            | 54.0 %             |          |

The following table reflects summary Consolidated Statement of Cash Flow information for the three months ended December 29, 2012 and December 31, 2011:

| (in thousands)   | Three months ended |                   |
|--|--------------------|-------------------|
|  | December 29, 2012  | December 31, 2011 |
| Net cash provided by continuing operations                   | \$58,494           | \$ 34,324         |
| Net cash used in discontinued operations                     | -                  | (486 )            |
| Net cash provided by operating activities                    | \$58,494           | \$ 33,838         |
| Net cash used in investing activities                        | (4,516 )           | (9,982 )          |
| Net cash provided by financing activities                    | 159                | 1,576             |
| Effect of exchange rate changes on cash and cash equivalents | (211 )             | 141               |
| Changes in cash and cash equivalents                         | \$53,926           | \$ 25,573         |
| Cash and cash equivalents, beginning of period               | 440,244            | 378,188           |
| Cash and cash equivalents, end of period                     | \$494,170          | \$ 403,761        |

**Three months ended December 29, 2012***Continuing Operations*

Net cash provided by operating activities was primarily the result of working capital changes, which provided \$44.1 million driven by decreases in accounts receivables of \$90.0 million due to cash collections in line with higher sales in the fourth quarter of 2012 due to variations in the timing of our customer orders within the seasonal cycle who tend to add or replace equipment capacity by the end of the September quarter, prepaid expenses and other current assets reduced by \$5.6 million and a reduction in inventories of \$2.6 million partially offset by a decrease in accounts payable of \$54.1 million due to an annual global shutdown in the first quarter of 2013 coupled with lower sales. In addition, net income of \$3.6 million plus non-cash adjustments of \$10.8 million contributed to net cash provided by operating activities.

Net cash used in investing activities was due to the capital expenditures of \$1.6 million and cash collateral for a bank guarantee issued for \$2.9 million which was issued in October 2012.

**Three months ended December 31, 2011**

*Continuing Operations*

Net cash provided by operating activities was primarily the result of net income of \$8.5 million plus non-cash adjustments of \$8.1 million. In addition, working capital changes provided \$17.7 million driven by decreases in accounts receivable and inventory partially offset by decreases in accounts payable, accrued expenses and other current liabilities.

Net cash used in investing activities included a one-time payment of \$14.8 million related to the Company's Earnout Agreement with Orthodyne Electronics Corporation related to its acquisition of that business in October 2008. In addition \$1.5 million was spent in capital expenditures. This was partially offset by sale of short term investments of \$6.4 million.

Net cash provided by financing activities was the result of proceeds from stock option exercises.

### *Discontinued Operations*

Net cash used in operating activities was related to facility payments for our former Test business.

### **Fiscal 2013 Liquidity and Capital Resource Outlook**

We expect our fiscal 2013 capital expenditures to be \$30.0 to \$31.0 million, of which approximately \$15.0 million is expected to relate to leasehold improvements for our Singapore facility under the Agreement to Develop and Lease (the "ADL"). Expenditures are anticipated to be used for R&D projects, enhancements to our manufacturing operations in Asia and improvements to our information technology infrastructure.

We believe that our existing cash and investments and anticipated cash flows from operations will be sufficient to meet our liquidity and capital requirements for at least the next twelve months. Our liquidity is affected by many factors, some based on normal operations of our business and others related to global economic conditions and industry uncertainties, which we cannot predict. We also cannot predict economic conditions and industry downturns or the timing, strength or duration of recoveries. We intend to continue to use our cash for working capital needs and for general corporate purposes.

We may seek, as we believe appropriate, additional debt or equity financing which would provide capital for corporate purposes, working capital funding, additional liquidity needs or to fund future growth opportunities. The timing and amount of potential capital requirements cannot be determined at this time and will depend on a number of factors, including our actual and projected demand for our products, semiconductor and semiconductor capital equipment industry conditions, competitive factors, and the condition of financial markets.

### **Other Obligations and Contingent Payments**

#### *Agreement to Develop and Lease*

On May 7, 2012, Kulicke & Soffa Pte Ltd. ("Pte"), the Company's wholly owned subsidiary Pte entered into the ADL with DBS Trustee Limited as trustee of Mapletree Industrial Trust (the "Landlord"). Pursuant to the ADL, the Landlord agreed to develop a building at Lot 17622A Pt Mukim 18 at Serangoon North Avenue 5 (the "Building") and Pte expects to lease from the Landlord 198,134 square feet (the "Initial Premises") representing approximately 69% of the

Building. The Building is estimated to be completed and ready for occupancy in the second half of 2013. Subject to approval from the relevant authorities, the Building will bear a name to be chosen by Pte.

The facility is in the process of being constructed. In accordance with ASC No. 840, *Leases*, we are considered to be the owner of the building during the construction phase due to our involvement in the asset construction. The estimated construction costs incurred to date in relation to the relevant proportion of our lease are recognized on the balance sheet as of December 29, 2012. Applicable ground lease expense was accrued. See Note 9 of Item 1 for additional details.

### **Other Obligations and Contingent Payments**

In accordance with U.S. generally accepted accounting principles, certain obligations and commitments are not required to be included in the Consolidated Balance Sheets and Statements of Operations. These obligations and commitments, while entered into in the normal course of business, may have a material impact on our liquidity. Certain of the following commitments as of December 29, 2012 are appropriately not included in the Consolidated Balance Sheets and Statements of Operations included in this Form 10-Q; however, they have been disclosed in the following table for additional information.

The following table reflects obligations and contingent payments under various arrangements as of December 29, 2012:

| (in thousands)   | Total    | Payments due by fiscal period |             |             |                   |
|--|----------|-------------------------------|-------------|-------------|-------------------|
|  |          | Less than 1 year              | 1 - 3 years | 3 - 5 years | More than 5 years |
| Current and long-term liabilities:   |          |                               |             |             |                   |
| Pension plan obligations   | 4,199    | -                             | -           | -           | 4,199             |
| Severance (1)  | 5,032    | 2,607                         | 660         | -           | 1,765             |
| Obligations related to Chief Executive Officer transition (2)                                    | 228      | 228                           | -           | -           | -                 |
| Operating lease retirement obligations   | 2,336    | 1,137                         | 360         | -           | 839               |
| Long-term income taxes payable   | 1,864    | -                             | -           | -           | 1,864             |
| Total Obligations and Contingent Payments reflected on the Consolidated Financial Statements     | \$13,659 | \$ 3,972                      | \$ 1,020    | -           | \$ 8,667          |
| Contractual Obligations:   |          |                               |             |             |                   |
| Inventory purchase obligations (3)   | \$62,953 | 62,953                        | -           | -           | -                 |
| Operating lease obligations (4)  | 25,669   | 6,885                         | 6,548       | 4,371       | 7,865             |
| Total Obligations and Contingent Payments not reflected on the Consolidated Financial Statements | \$88,622 | \$ 69,838                     | \$ 6,548    | \$ 4,371    | \$ 7,865          |

(1) In accordance with regulations in some of our foreign subsidiaries, we are required to provide for severance obligations that are payable when an employee leaves the Company.

(2) In connection with the September 2010 retirement of our former Chief Executive Officer, we entered into a three year consulting arrangement with him.

(3) We order inventory components in the normal course of our business. A portion of these orders are non-cancelable and a portion may have varying penalties and charges in the event of cancellation.

(4) We have minimum rental commitments under various leases (excluding taxes, insurance, maintenance and repairs, which are also paid by us) primarily for various facility and equipment leases, which expire periodically through

2018 (not including lease extension options, if applicable).

Under the ADL, Pte expects to enter into a lease agreement (the "Lease Agreement") with the Landlord. The term for the rental of the Initial Premises is expected to be 10 years, (the "Initial Term"). Pte will have the option to renew for two additional ten-year terms. The combined annual rent and service charge for the Initial Term will range between approximately \$4.0 to \$5.0 million Singapore dollars. Subject to renting a minimum amount of space, Pte will have a right of first refusal for all space that becomes available in the Building, and the Landlord has agreed to make available a certain amount of additional space for rental at Pte's option which may be exercised at certain points during the second half of the Initial Term. Subject to renting a minimum amount of space for a certain period, Pte will have partial surrender rights. In addition, Pte will have termination rights after renting the Initial Premises for a certain period of time. The Lease Agreement is not in effect as of the date of this report and is not reflected in the above table.

We are considered the owner of the building during the construction phase of the ADL. As of December 29, 2012, we recorded a financing obligation of \$4.4 million relating to the building and we are expecting to record an additional \$20.4 million over the construction term, which is expected to be completed in the next twelve months. The financing obligation is not reflected in the table above.

### **Off-Balance Sheet Arrangements**

On May 9, 2012, Pte obtained a Bank Guarantee from DBS Bank Ltd. in the amount of \$3.4 million Singapore dollars. Pte furnished the Bank Guarantee to Mapletree Industrial Trust in lieu of a cash deposit in connection with building and leasing of a new facility in Singapore as discussed above.

We currently do not have any other off-balance sheet arrangements, such as derivatives, contingent interests or obligations associated with variable interest entities.

### **Item 3. - QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

#### ***Interest Rate Risk***

Our available-for-sale securities, if applicable, may consist of short-term investments in highly rated debt instruments of the U.S. Government and its agencies, financial institutions, and corporations. We continually monitor our exposure to changes in interest rates and credit ratings of issuers with respect to any available-for-sale securities and target an average life to maturity of less than 18 months. Accordingly, we believe that the effects to us of changes in interest rates and credit ratings of issuers are limited and would not have a material impact on our financial condition or results of operations. As of December 29, 2012, we had no available-for-sale investments.

#### ***Foreign Currency Risk***

Our operations are exposed to changes in foreign currency exchange rates due to transactions denominated in currencies other than the location's functional currency. Our international operations are exposed to foreign currency fluctuations that impact the remeasurement of net monetary assets of those operations whose functional currency, the U.S. dollar, differs from their respective local currencies, most notably in Israel, Malaysia, Singapore and Switzerland. Our U.S. operations also have foreign currency exposure due to net monetary assets denominated in currencies other than the U.S. dollar. In addition to net monetary remeasurement, we have exposures related to the translation of subsidiary financial statements from their functional currency, the local currency, into our reporting currency, the U.S. dollar, most notably in China, Taiwan and Japan.



Based on our foreign currency exposure as of December 29, 2012, a 10.0% fluctuation could impact our financial position, results of operations or cash flows by \$3.0 to \$4.0 million. Our board of directors has granted management with limited authority to enter into foreign exchange forward contracts and other instruments designed to minimize the short term impact currency fluctuations have on our business. We may enter into foreign exchange forward contracts and other instruments in the future; however, our attempts to hedge against these risks may not be successful and may result in a material adverse impact on our financial results and cash flow. We had no foreign exchange forward contracts or other instruments as of December 29, 2012.

#### **Item 4. - CONTROLS AND PROCEDURES**

##### **Evaluation of Disclosure Controls and Procedures**

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of December 29, 2012. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that, as of December 29, 2012 our disclosure controls and procedures were effective in providing reasonable assurance the information required to be disclosed by us in reports filed under the Securities Exchange Act of 1934, as amended, is (i) recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms and (ii) accumulated and communicated to our management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding disclosure.

#### **PART II. - OTHER INFORMATION**

##### **Item 1A. - RISK FACTORS**

##### **Certain Risks Related to Our Business**

Risks related to our business are detailed in our Annual Report on Form 10-K for the year ended September 29, 2012 filed with the Securities and Exchange Commission.

**Item 6. - EXHIBITS**

Exhibit No. Description

- 10.1 Form of Officer Strategic Performance Share Unit Award Agreement regarding the 2009 Equity Plan.\*
- 31.1 Certification of Bruno Guilmart, Chief Executive Officer of Kulicke and Soffa Industries, Inc., pursuant to Rule 13a-14(a) or Rule 15d-14(a).
- 31.2 Certification of Jonathan Chou, Chief Financial Officer of Kulicke and Soffa Industries, Inc., pursuant to Rule 13a-14(a) or Rule 15d-14(a).
- 32.1 Certification of Bruno Guilmart, Chief Executive Officer of Kulicke and Soffa Industries, Inc., 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 Jonathan Chou, Chief Financial Officer of Kulicke and Soffa Industries, Inc., pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 101.INS XBRL Instance Document.
- 101.SCH XBRL Taxonomy Extension Schema Document.
- 101.CAL XBRL Taxonomy Extension Calculation Linkbase Document.
- 101.DEF XBRL Taxonomy Extension Definition Linkbase Document.
- 101.LAB XBRL Taxonomy Extension Label Linkbase Document.
- 101.PRE XBRL Taxonomy Extension Presentation Linkbase Document.

\* Indicates a management contract or compensatory plan or arrangement.

**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.

KULICKE AND SOFFA  
INDUSTRIES, INC.

Date: January 31, 2013 By: /s/ JONATHAN CHOU

Jonathan Chou  
Senior Vice President,  
Chief Financial Officer and

Principal Accounting  
Officer

**EXHIBIT INDEX**

Exhibit No. Description

- 10.1 Form of Officer Strategic Performance Share Unit Award Agreement regarding the 2009 Equity Plan.\*
- 31.1 Certification of Bruno Guilmart, Chief Executive Officer of Kulicke and Soffa Industries, Inc., pursuant to Rule 13a-14(a) or Rule 15d-14(a).
- 31.2 Certification of Jonathan Chou, Chief Financial Officer of Kulicke and Soffa Industries, Inc., pursuant to Rule 13a-14(a) or Rule 15d-14(a).
- 32.1 Certification of Bruno Guilmart, Chief Executive Officer of Kulicke and Soffa Industries, Inc., 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 Jonathan Chou, Chief Financial Officer of Kulicke and Soffa Industries, Inc., pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 101.INS XBRL Instance Document.
- 101.SCH XBRL Taxonomy Extension Schema Document.
- 101.CAL XBRL Taxonomy Extension Calculation Linkbase Document.
- 101.DEF XBRL Taxonomy Extension Definition Linkbase Document.
- 101.LAB XBRL Taxonomy Extension Label Linkbase Document.
- 101.PRE XBRL Taxonomy Extension Presentation Linkbase Document.

\* Indicates a management contract or compensatory plan or arrangement.