

KULICKE & SOFFA INDUSTRIES INC
Form 10-Q
February 04, 2016
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 ACT OF 1934

For the quarterly period ended January 2, 2016

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
(State or other jurisdiction of incorporation)

23-1498399
(IRS Employer Identification No.)

23A Serangoon North, Avenue 5, #01-01 K&S Corporate Headquarters, Singapore 554369
(Address of principal executive offices and Zip Code)

(215) 784-6000
(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 February 1, 2016, there were 70,363,966 shares of the Registrant's Common Stock, no par value, outstanding.

Table of Contents

KULICKE AND SOFFA INDUSTRIES, INC.

FORM 10 – Q

January 2, 2016

Index

Page Number

PART I - FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS (Unaudited)

Consolidated Balance Sheets as of January 2, 2016 and October 3, 2015 1

Consolidated Statements of Operations for the three months ended January 2, 2016 and December 27, 2014 2

Consolidated Statements of Comprehensive Income / (Losses) for the three months ended January 2, 2016 and December 27, 2014 3

Consolidated Statements of Cash Flows for the three months ended January 2, 2016 and December 27, 2014 4

Notes to Consolidated Financial Statements 5

Item 2. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS 25

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK 38

Item 4. CONTROLS AND PROCEDURES 39

PART II - OTHER INFORMATION

Item 1A. RISK FACTORS 40

Item 2. UNREGISTERED SALES OF EQUITY SECURITY AND USE OF PROCEEDS 41

Item 6. EXHIBITS 42

SIGNATURES 43

Table of Contents

PART I. - FINANCIAL INFORMATION

Item 1. – FINANCIAL STATEMENTS

KULICKE AND SOFFA INDUSTRIES, INC.

CONSOLIDATED BALANCE SHEETS

(in thousands)

Unaudited

	As of January 2, 2016	October 3, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	\$492,935	\$498,614
Accounts and notes receivable, net of allowance for doubtful accounts of \$621 and \$621 respectively	108,628	108,596
Inventories, net	69,648	79,096
Prepaid expenses and other current assets	17,340	16,937
Deferred income taxes	—	4,126
Total current assets	688,551	707,369
Property, plant and equipment, net	52,076	53,234
Goodwill	81,272	81,272
Intangible assets	55,805	57,471
Other assets	6,388	5,120
TOTAL ASSETS	\$884,092	\$904,466
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$33,741	\$25,521
Accrued expenses and other current liabilities	36,810	45,971
Income taxes payable	1,353	2,442
Total current liabilities	71,904	73,934
Financing obligation	16,508	16,483
Deferred income taxes	29,455	33,958
Other liabilities	11,219	10,842
TOTAL LIABILITIES	\$129,086	\$135,217
Commitments and contingent liabilities (Note 15)		
SHAREHOLDERS' EQUITY:		
Preferred stock, without par value:		
Authorized 5,000 shares; issued - none	\$—	\$—
Common stock, no par value:		
Authorized 200,000 shares; issued 83,146 and 82,643, respectively;		
outstanding 70,503 and 71,240 shares, respectively	492,226	492,339
Treasury stock, at cost, 12,643 and 11,403 shares, respectively	(137,696	) (124,856
Retained earnings	402,772	402,863
Accumulated other comprehensive income	(2,296	) (1,097
TOTAL SHAREHOLDERS' EQUITY	\$755,006	\$769,249

TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$884,092	\$904,466
--	-----------	-----------

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

Table of Contents

KULICKE AND SOFFA INDUSTRIES, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share data)

Unaudited

	Three months ended		
	January 2, 2016	December 27, 2014	
Net revenue	\$108,534	\$107,438	
Cost of sales	58,113	52,704	
Gross profit	50,421	54,734	
Selling, general and administrative	27,932	25,427	
Research and development	24,194	19,581	
Operating expenses	52,126	45,008	
(Loss) / Income from operations	(1,705	) 9,726
Interest income	622	262	
Interest expense	(273) (303)
(Loss) / Income from operations before income taxes	(1,356	) 9,685
Income tax (benefit) / expense	(1,265	) 1,843
Net (loss) / income	\$(91	) \$7,842
Net (loss) / income per share:			
Basic	\$—	\$0.10	
Diluted	\$—	\$0.10	
Weighted average shares outstanding:			
Basic	70,738	76,888	
Diluted	70,738	77,432	

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

Table of Contents

KULICKE AND SOFFA INDUSTRIES, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands)

Unaudited

	Three months ended	
	January 2, 2016	December 27, 2014
Net (loss) / income	\$(91	) \$7,842
Other comprehensive income:		
Foreign currency translation adjustment	(1,130	) (679
Unrecognized actuarial loss, Switzerland pension plan, net of tax	28	—
	(1,102	) (679
Derivatives designated as hedging instruments:		
Unrealized loss on derivative instruments, net of tax	(187	) (640
Reclassification adjustment for loss on derivative instruments recognized, net of tax	89	248
Net decrease from derivatives designated as hedging instruments, net of tax	(98	) (392
Total other comprehensive loss	(1,200	) (1,071
Comprehensive (loss) / income	\$(1,291	) \$6,771

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

Table of Contents

KULICKE AND SOFFA INDUSTRIES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

Unaudited

	Three months ended	
	January 2, 2016	December 27, 2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net (loss) / income	\$(91	) \$7,842
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	4,051	3,556
Equity-based compensation and employee benefits	62	3,435
Excess tax benefits from stock-based compensation arrangements	(363) —
Adjustment for doubtful accounts	—	143
Adjustment for inventory valuation	1,357	169
Deferred taxes	(1,989	) 351
Gain on disposal of property, plant and equipment	(37) —
Unrealized foreign currency transactions	(1,510	) (1,569
Changes in operating assets and liabilities:		
Accounts and notes receivable	7	49,302
Inventory	8,077	(2,903
Prepaid expenses and other current assets	(417	) 4,009
Accounts payable, accrued expenses and other current liabilities	(623	) (18,172
Income taxes payable	(1,080	) 169
Other, net	250	110
Net cash provided by operating activities	7,694	46,442
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property, plant and equipment	(1,727	) (2,546
Proceeds from sales of property, plant and equipment	115	—
Purchase of short-term investments	—	(1,630
Net cash used in investing activities	(1,612	) (4,176
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payment on debts	(125	) (81
Proceeds from exercise of common stock options	177	98
Repurchase of common stock	(12,840	) (7,638
Excess tax benefits from stock-based compensation arrangements	363	—
Net cash used in financing activities	(12,425	) (7,621
Effect of exchange rate changes on cash and cash equivalents	664	(36
Changes in cash and cash equivalents	(5,679	) 34,609
Cash and cash equivalents at beginning of period	498,614	587,981
Cash and cash equivalents at end of period	\$492,935	\$622,590
CASH PAID FOR:		
Interest	\$273	\$303
Income taxes	\$1,873	\$956

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

Table of Contents

KULICKE AND SOFFA INDUSTRIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Unaudited

NOTE 1: BASIS OF PRESENTATION

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 Company's Annual Report on Form 10-K for the fiscal year ended October 3, 2015, filed with the Securities and Exchange Commission, which includes Consolidated Balance Sheets as of October 3, 2015 and September 27, 2014, and the related Consolidated Statements of Operations, Statements of Other Comprehensive Income, Changes in Shareholders' Equity and Cash Flows for each of the years in the three-year period ended October 3, 2015. 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 30th. Fiscal 2016 quarters end on January 2, 2016, April 2, 2016, July 2, 2016 and October 1, 2016. In fiscal years consisting of 53 weeks, the fourth quarter will consist of 14 weeks. Fiscal 2015 quarters ended on December 27, 2014, March 28, 2015, June 27, 2015 and October 3, 2015.

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 device manufacturers, outsourced semiconductor assembly and test providers ("OSATs"), and other electronics manufacturers, including automotive electronics suppliers, 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 can 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 ongoing 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, 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.

Vulnerability to Certain Concentrations

Financial instruments which may subject the Company to concentrations of credit risk as of January 2, 2016 and October 3, 2015 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.

Table of Contents

KULICKE AND SOFFA INDUSTRIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Unaudited (continued)

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 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.

Foreign Currency Translation and Remeasurement

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.

The Company's 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 its reporting currency, the U.S. dollar, most notably in Netherlands, China, Taiwan, Japan and Germany. 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.

Derivative Financial Instruments

The Company's primary objective for holding derivative financial instruments is to manage the fluctuation in foreign exchange rates and accordingly is not speculative in nature. The Company's international operations are exposed to changes in foreign exchange rates as described above. The Company has established a program to monitor the forecasted transaction currency risk to protect against foreign exchange rate volatility. Generally, the Company uses foreign exchange forward contracts in these hedging programs. These instruments, which have maturities of up to six months, are recorded at fair value and are included in prepaid expenses and other current assets, or other accrued expenses and other current liabilities.

Our accounting policy for derivative financial instruments is based on whether they meet the criteria for designation as a cash flow hedge. A designated hedge with exposure to variability in the functional currency equivalent of the future foreign currency cash flows of a forecasted transaction is referred to as a cash flow hedge. The criteria for designating a derivative as a cash flow hedge include the assessment of the instrument's effectiveness in risk reduction, matching of the derivative instrument to its underlying transaction, and the assessment of the probability that the underlying transaction will occur. For derivatives with cash flow hedge accounting designation, we report the after-tax gain / (loss) from the effective portion of the hedge as a component of accumulated other comprehensive income / (loss) and reclassify it into earnings in the same period in which the hedged transaction affects earnings and in the same line item on the consolidated statement of income as the impact of the hedged transaction. Derivatives that we designate as cash flow hedges are classified in the consolidated statement of cash flows in the same section as the underlying item, primarily within cash flows from operating activities.

The hedge effectiveness of these derivative instruments is evaluated by comparing the cumulative change in the fair value of the hedge contract with the cumulative change in the fair value of the forecasted cash flows of the hedged item.

If a cash flow hedge is discontinued because it is no longer probable that the original hedged transaction will occur as previously anticipated, the cumulative unrealized gain or loss on the related derivative is reclassified from accumulated other comprehensive income / (loss) into earnings. Subsequent gain / (loss) on the related derivative instrument is recognized into earnings in each period until the instrument matures, is terminated, is re-designated as a qualified cash flow hedge, or is sold. Ineffective portions of cash flow hedges, as well as amounts excluded from the assessment of effectiveness, are recognized in earnings.

Table of Contents

KULICKE AND SOFFA INDUSTRIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Unaudited (continued)

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 January 2, 2016 and October 3, 2015, 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 or regional 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 net realizable value. In the fourth quarter of 2015, we adopted Accounting Standard Update 2015-11, Simplifying the Measurement of Inventory, which requires that inventory be measured at the lower of cost or net realizable value rather than the lower of cost or market. The adoption of this standard did not have a material impact on our financial statements.

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 forecasted future consumption for equipment, 24 months forecasted future consumption for spare parts, and 12 months forecasted future consumption for expendable tools. Forecasted consumption 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 consumption 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 net realizable value, based upon assumptions about future consumption, and market conditions. If actual market conditions are less favorable than projections, additional inventory reserves may be required.

Inventory reserve provision for certain subsidiaries is determined based on management's estimate of future consumption for equipment and spare parts. This estimate is based on historical sales volumes, internal projections and market developments and trends.

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 to the extent it exceeds the sum of the undiscounted cash flows

Table of Contents

KULICKE AND SOFFA INDUSTRIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Unaudited (continued)

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 historical internal forecasts 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. During the three months ended January 2, 2016, no triggering events occurred.

Accounting for Impairment of Goodwill

The Company operates two reportable segments: Equipment and Expendable Tools. Goodwill was recorded for the acquisitions of Orthodyne Electronics Corporation ("Orthodyne") and Assembléon in 2009 and 2015, respectively. We 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 in the first step of the test, then a company is required to perform the second step of the goodwill impairment test to measure the amount of the reporting unit's goodwill impairment loss, if any.

As part of the annual evaluation, the Company performs an impairment test of its goodwill in the fourth quarter of each fiscal year to coincide with the completion of its annual forecasting and refreshing of its business outlook processes. On an ongoing basis, the Company monitors if a "triggering" event has occurred that may have the effect of reducing the fair value of a reporting unit below its respective carrying value. Adverse changes in expected operating results and/or unfavorable changes in other economic factors used to estimate fair values could result in a non-cash impairment charge in the future. During the three months ended January 2, 2016, no triggering events occurred.

Impairment assessments inherently involve judgment as to the assumptions made about the 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 6 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 customer acceptance, when applicable, has been received or we otherwise have been released from 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.

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.

Table of Contents

KULICKE AND SOFFA INDUSTRIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Unaudited (continued)

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 when 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 when 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, 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.

Accounting for Business Acquisitions

The Company accounts for business acquisitions in accordance with ASC No. 805, Business Combinations. The fair value of the net assets acquired and the results of operations of the acquired businesses are included in the Unaudited Consolidated Financial Statements from the acquisition date forward. The Company is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and results of operations during the reporting period. Estimates are used in accounting for, among other things, the fair value of acquired net operating assets, property and equipment, deferred revenue, intangible assets and related deferred tax liabilities, useful lives of plant and equipment, and amortizable lives of acquired intangible assets. Any excess of the purchase consideration over the identified fair value of the assets and liabilities acquired is recognized as goodwill. The valuation of these tangible and identifiable intangible assets and liabilities is subject to further management review and may change materially between the preliminary allocation and end of the purchase price allocation period.

Restructuring charges

Restructuring charges may consist of voluntary or involuntary severance-related charges, asset-related charges and other costs due to exit activities. We recognize voluntary termination benefits when an employee accepts the offered benefit arrangement. We recognize involuntary severance-related charges depending on whether the termination benefits are provided under an ongoing benefit arrangement or under a one-time benefit arrangement. If the former, we recognize the charges once they are probable and the amounts are estimable. If the latter, we recognize the charges once the benefits have been communicated to employees.

Table of Contents

KULICKE AND SOFFA INDUSTRIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Unaudited (continued)

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, Revenue from Contracts with Customers (Topic 606), which supersedes the revenue recognition requirements in Accounting Standards Codification ("ASC") 605, Revenue Recognition. The new standard provides for a single five-step model to be applied to all revenue contracts with customers. The new standard also requires additional financial statement disclosures that will enable users to understand the nature, amount, timing and uncertainty of revenue and cash flows relating to customer contracts. Companies have an option to use either a retrospective approach or cumulative effect adjustment approach to implement the standard. There is no option for early adoption. In July 2015, the FASB decided to delay the effective date of the new revenue standard by one year. Under the proposal, the new guidance will be effective as of the beginning of our 2018 fiscal year. We are currently evaluating the impact of the new guidance on our financial statements and have not yet selected a transition approach to implement the standard.

In February 2015, the FASB issued ASU 2015-02 – Amendments to the Consolidation Analysis, which amends the consolidation requirements in ASC 810 Consolidation. ASU 2015-02 makes targeted amendments to the current consolidation guidance for VIEs, which could change consolidation conclusions. This ASU will be effective for us beginning in our first quarter of 2017 and early adoption is permitted. We are evaluating the effects of the adoption of this ASU on our financial statements.

In April 2015, the FASB issued ASU 2015-05, which provides additional guidance to customers about whether a cloud computing arrangement includes a software license. Under ASU 2015-05, if a software cloud computing arrangement contains a software license, customers should account for the license element of the arrangement in a manner consistent with the acquisition of other software licenses. If the arrangement does not contain a software license, customers should account for the arrangement as a service contract. ASU 2015-05 also removes the requirement to analogize to ASC 840-10 – Leases to determine the asset acquired in a software licensing arrangement. This ASU will be effective for us beginning in our first quarter of 2017 and early adoption is permitted. We are evaluating the effects of the adoption of this ASU on our financial statements.

In November 2015, the FASB issued ASU 2015-17, Income Taxes (Topic 740), to simplify the presentation of deferred income taxes. Under the new standard, both deferred tax liabilities and assets are required to be classified as noncurrent in a classified balance sheet. ASU 2015-17 will become effective for fiscal years, and the interim periods within those years, beginning after December 15, 2016 (our fiscal 2018), with early adoption allowed. As of October 3, 2015, we had deferred taxes that were classified as current and noncurrent. During the first quarter of fiscal 2016, we elected to prospectively adopt ASU 2015-17, thus reclassifying current deferred taxes to noncurrent on the accompanying consolidated balance sheet. The prior reporting period was not retrospectively adjusted. The adoption of this guidance had no impact on our consolidated results of income and comprehensive income. As of January 2, 2016, \$1.3 million and \$2.8 million of the net current deferred tax assets have been classified as long-term deferred tax assets and as an offset against long-term deferred tax liabilities, respectively.

Table of Contents

KULICKE AND SOFFA INDUSTRIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Unaudited (continued)

NOTE 2: REVISION OF PREVIOUSLY REPORTED INCOME TAXES AND DEFERRED TAX LIABILITIES

In the first quarter of 2016, the Company identified an error related to the income tax expense and related deferred income tax liabilities accounts that impacted the Company's previously issued interim and annual consolidated financial statements. The adjustment relates to the local taxes in a foreign jurisdiction that resulted in an increased provision for income taxes expense and deferred income tax liabilities that should have been recorded prior to fiscal 2014.

The Company determined that this error was not material to any of the Company's prior annual and interim period consolidated financial statements and therefore, amendments of previously filed reports were not required. However, the Company determined that the impact of the correction may be considered material to the estimated income for the fiscal 2016. As such, a revision for the correction is reflected in the financial information of the applicable prior periods in this Form 10-Q filing and disclosure of the revised amount on other prior periods will be reflected in future filings covering the applicable period. The error resulted in a cumulative correction to beginning retained earnings and deferred tax liabilities of \$2.6 million on the Consolidated Balance Sheet as of October 3, 2015. Since the error relates to financial periods prior to fiscal 2014, there was no impact to the Consolidated Statements of Operations, the Consolidated Statements of Comprehensive Income and the Consolidated Statements of Cash Flows for the three months ended January 2, 2016 and December 27, 2014.

The impact of this revision for period presented within this quarterly report on Form 10-Q are shown in the table below:

CONSOLIDATED BALANCE SHEET

	As at October 3, 2015		
	As previously reported	Adjustment	As Revised
Deferred income taxes	31,316	2,642	33,958
TOTAL LIABILITIES	\$ 132,575	\$ 2,642	\$ 135,217
Retained earnings	405,505	(2,642)	402,863
TOTAL SHAREHOLDERS' EQUITY	\$ 771,891	\$ (2,642)	\$ 769,249

NOTE 3: RESTRUCTURING

On September 29, 2015, the Company implemented a plan to streamline its global operations and functions. As part of this plan, our workforce was reduced by 45 employees.

The following table reflects severance activity during the three months ended January 2, 2016:

(in thousands)	Three months ended January 2, 2016
Accrual for estimated severance and benefits, beginning of period (1)	1,538
Provision for severance and benefits (2)	615
Payment of severance and benefits	(1,488)
Accrual for estimated severance and benefits, end of period (1)	665

(1) Included within accrued expenses and other current liabilities on the Consolidated Balance Sheets.

(2) Provision for severance and benefits is the total amount expected to be incurred and is included within selling, general and administrative expenses on the Consolidated Statements of Operations.

Table of ContentsKULICKE AND SOFFA INDUSTRIES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Unaudited (continued)

NOTE 4: BALANCE SHEET COMPONENTS

The following tables reflect the components of significant balance sheet accounts as of January 2, 2016 and October 3, 2015:

(in thousands)	As of January 2, 2016	October 3, 2015
Inventories, net:		
Raw materials and supplies	\$18,888	\$23,541
Work in process	19,297	24,110
Finished goods	51,046	50,518
	89,231	98,169
Inventory reserves	(19,583	) (19,073
	\$69,648	\$79,096
Property, plant and equipment, net:		
Buildings and building improvements	\$33,699	\$33,760
Leasehold improvements	19,428	19,512
Data processing equipment and software	28,694	28,861
Machinery, equipment, furniture and fixtures	52,569	52,106
	134,390	134,239
Accumulated depreciation	(82,314	) (81,005
	\$52,076	\$53,234
Accrued expenses and other current liabilities:		
Wages and benefits	\$13,310	\$19,166
Accrued customer obligations (1)	7,430	9,215
Commissions and professional fees	3,015	3,880
Deferred rent	2,448	2,450
Severance (2)	1,975	1,645
Other	8,632	9,615
	\$36,810	\$45,971

(1) Represents customer advance payments, customer credit program, accrued warranty expense and accrued retrofit obligations.

(2) Includes the restructuring plan discussed in Note 3, \$1.2 million of severance payable in connection with the October 2015 retirement of the Company's CEO, and other severance payments which are not part of the Company's plan to streamline its global operations and functions.

Table of Contents

KULICKE AND SOFFA INDUSTRIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Unaudited (continued)

NOTE 5: BUSINESS COMBINATIONS

On January 9, 2015, Kulicke & Soffa Holdings B.V. (“KSH”), the Company's wholly owned subsidiary, acquired all of the outstanding equity interests of Assembléon.

The cash purchase price of approximately \$97.4 million (EUR 80 million) consisted of \$72.5 million for 100% of the equity of Assembléon and \$24.9 million which was used by Assembléon to settle intercompany loans with its parent company.

The acquisition of Assembléon was accounted for in accordance with ASC No. 805, Business Combinations, using the acquisition method. On January 9, 2016, the Company finalized the valuation of the tangible and identifiable intangible assets and liabilities in connection with the acquisition of Assembléon and no further adjustment was recorded.

As of January 2, 2016, \$13.5 million (EUR 12 million) was held in escrow for a period of eighteen months from the acquisition date as security pending the completion of Assembléon Holding B.V.'s obligations as seller under the Agreement.

The following table summarizes the allocation of the assets acquired and liabilities assumed based on the fair values as of the acquisition date and related useful lives of the finite-lived intangible assets acquired:

(in thousands)	January 9, 2015	
Accounts receivable	\$9,941	
Inventories	19,861	
Prepaid expenses and other current assets	2,322	
Deferred tax asset	157	
Property, plant and equipment	531	
Intangibles	61,463	
Goodwill	39,726	
Deferred income taxes	638	
Accounts payable	(14,386))
Borrowings financial institutions	(9,491))
Accrued expenses and other current liabilities	(10,561))
Income taxes payable	(1,933))
Deferred tax liabilities	(5,115))
Total purchase price, net of cash acquired	\$93,153	

Tangible net assets (liabilities) were valued at their respective carrying amounts, which the Company believes approximate their current fair values at the acquisition date.

The valuation of identifiable intangible assets acquired reflects management’s estimates based on, among other factors, use of established valuation methods. The technology/software and product brand name was determined using the relief from royalty method. Customer relationships were valued by using multi-period excess earnings method.

Identifiable intangible assets with definite lives are amortized over the period of estimated benefit using the straight-line method and the estimated useful lives of six to fifteen years. The straight-line method of amortization represents the Company’s best estimate of the distribution of the economic value of the identifiable intangible assets. Goodwill represents the excess of the purchase price over the fair value of the net tangible and identifiable intangible assets acquired. None of the goodwill recorded as part of the acquisition will be deductible for income tax purposes. In connection with the acquisition of Assembléon, the Company recorded deferred tax liabilities relating to the acquired intangible assets, which is partially offset by the net amount of acquired net operating losses. The net amount of acquired net operating losses is comprised of net operating losses less the tax reserves and valuation allowance. The Company has recorded long-term income tax payable due to uncertain tax positions with respect to certain Assembléon entities.

Table of Contents

KULICKE AND SOFFA INDUSTRIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Unaudited (continued)

NOTE 6: 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 and refreshing of its business outlook processes. The Company performed its annual impairment test in the fourth quarter of fiscal 2015 and concluded that no impairment charge was required. During the three months ended January 2, 2016, the Company reviewed the qualitative factors to ascertain if a "triggering" event may have taken place that may have the effect of reducing the fair value of the reporting unit below its carrying value and concluded that no triggering event had occurred.

In 2009, the Company recorded goodwill when it acquired Orthodyne and added wedge bonder products to its business.

On January 9, 2015, KSH, the Company's wholly owned subsidiary, acquired all of the outstanding equity interests of Assembléon in an all cash transaction for approximately \$97.4 million (EUR 80 million). Assembléon, together with its subsidiaries, offers assembly equipment, processes and services for the automotive, industrial, and advanced packaging markets. The acquisition expanded the Company's presence in automotive, industrial and advanced packaging markets.

The following table summarizes the Company's recorded goodwill as of January 2, 2016 and October 3, 2015:

(in thousands)	As of	
	January 2, 2016	October 3, 2015
Goodwill	\$81,272	81,272

Intangible Assets

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

The following table reflects net intangible assets as of January 2, 2016 and October 3, 2015:

(in thousands)	As of		Average estimated
	January 2, 2016	October 3, 2015	useful lives (in years)
Developed technology	\$74,080	\$74,080	7.0 to 15.0
Accumulated amortization	(35,925)	(35,244))
Net developed technology	\$38,155	\$38,836	
Customer relationships	\$36,968	\$36,968	5.0 to 6.0
Accumulated amortization	(22,245)	(21,509))
Net customer relationships	\$14,723	\$15,459	
Trade and brand names	\$7,515	\$7,515	7.0 to 8.0
Accumulated amortization	(4,588)	(4,339))
Net trade and brand name	\$2,927	\$3,176	
Other intangible assets	\$2,500	\$2,500	1.9
Accumulated amortization	(2,500)	(2,500))
Net other intangible assets	\$—	\$—	
Net intangible assets	\$55,805	\$57,471	

Table of ContentsKULICKE AND SOFFA INDUSTRIES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Unaudited (continued)

The following table reflects estimated annual amortization expense related to intangible assets as of January 2, 2016:

(in thousands)	As of January 2, 2016
Remaining fiscal 2016	\$4,994
Fiscal 2017	6,086
Fiscal 2018	6,086
Fiscal 2019	6,086
Fiscal 2020 and onwards	32,553
Total amortization expense	\$55,805

NOTE 7: CASH AND CASH EQUIVALENTS

Cash equivalents consist of instruments with remaining maturities of three months or less at the date of purchase. In general, these investments are free of trading restrictions. We carry these investments at fair value, based on quoted market prices or other readily available market information.

Cash and cash equivalents consisted of the following as of January 2, 2016:

(in thousands)	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
Current assets:				
Cash	\$ 140,720	\$—	\$—	\$ 140,720
Cash equivalents:				
Money market funds	58,481	—	—	58,481
Time deposits	293,734	—	—	293,734
Total cash and cash equivalents	\$492,935	\$—	\$—	\$492,935

Cash and cash equivalents consisted of the following as of October 3, 2015:

(in thousands)	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
Current assets:				
Cash	\$ 105,617	\$—	\$—	\$ 105,617
Cash equivalents:				
Money market funds	155,715	—	—	155,715
Time deposits	237,282	—	—	237,282
Total cash and cash equivalents	\$498,614	\$—	\$—	\$498,614

NOTE 8: FAIR VALUE MEASUREMENTS

Accounting standards establish three levels of inputs that may be used to measure fair value: quoted prices in active markets for identical assets or liabilities (referred to as Level 1), inputs other than Level 1 that are observable for the asset or liability either directly or indirectly (referred to as Level 2) and unobservable inputs to the valuation methodology that are significant to the measurement of fair value of assets or liabilities (referred to as Level 3).

Assets and Liabilities Measured and Recorded at Fair Value on a Recurring Basis

We measure certain financial assets and liabilities at fair value on a recurring basis. There were no transfers between fair value measurement levels during the three months ended January 2, 2016.

Table of Contents

KULICKE AND SOFFA INDUSTRIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Unaudited (continued)

Fair Value Measurements on a Nonrecurring Basis

Our non-financial assets such as intangible assets and property, plant and equipment are carried at cost unless impairment is deemed to have occurred.

Fair Value of Financial Instruments

Amounts reported as cash and equivalents, short-term investments, accounts receivables, prepaid expenses and other current assets, accounts payable and accrued expenses approximate fair value.

The fair values of our financial assets and liabilities at January 2, 2016 were determined using the following inputs:

(in thousands)	Fair Value Measurements at Reporting Date Using			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Cash	\$ 140,720	\$ 140,720	\$—	\$—
Cash equivalents:				
Money market funds	58,481	58,481	—	—
Time deposits	293,734	293,734	—	—
Total assets	\$492,935	\$492,935	\$—	\$—

The fair values of our financial assets and liabilities at October 3, 2015 were determined using the following inputs:

(in thousands)	Fair Value Measurements at Reporting Date Using			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Cash	\$ 105,617	\$ 105,617	\$—	\$—
Cash equivalents				
Money market funds	155,715	155,715	—	—
Time deposits	237,282	237,282	—	—
Total assets	\$498,614	\$498,614	\$—	\$—

NOTE 9: DERIVATIVE FINANCIAL INSTRUMENTS

The Company's international operations are exposed to changes in foreign exchange rates due to transactions denominated in currencies other than U.S. dollars. Most of the Company's revenue and cost of materials are transacted in U.S. dollars. However, a significant amount of the Company's operating expenses are denominated in local currencies, primarily in Singapore.

The foreign currency exposure of our operating expenses is generally hedged with foreign exchange forward contracts. The Company's foreign exchange risk management programs include using foreign exchange forward contracts with cash flow hedge accounting designation to hedge exposures to the variability in the U.S.-dollar equivalent of forecasted non-U.S.-dollar-denominated operating expenses. These instruments generally mature within 6 months. For these derivatives, we report the after-tax gain or loss from the effective portion of the hedge as a

component of accumulated other comprehensive income (loss), and we reclassify it into earnings in the same period or periods in which the hedged transaction affects earnings and in the same line item on the consolidated statements of income as the impact of the hedged transaction.

Table of ContentsKULICKE AND SOFFA INDUSTRIES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Unaudited (continued)

There were no outstanding derivative instruments as of October 3, 2015. The fair value of derivative instruments on our Consolidated Balance Sheet as of January 2, 2016 was as follows:

(in thousands)	As of January 2, 2016	
	Notional Amount	Fair Value Liability Derivatives ⁽¹⁾
Derivatives designated as hedging instruments:		
Foreign exchange forward contracts ⁽²⁾	\$7,937	\$98
Total derivatives	\$7,937	\$98

(1) The fair value of derivative liabilities is measured using level 2 fair value inputs and is included in accrued expenses and other current liabilities on our Consolidated Balance Sheet.

(2) Hedged amounts expected to be recognized to income within the next twelve months.

The effects of derivative instruments designated as cash flow hedges in our Consolidated Statements of Income for the three months ended January 2, 2016 and December 27, 2014 are as follows:

(in thousands)	Three months ended	
	January 2, 2016	December 27, 2014
Foreign exchange forward contract in cash flow hedging relationships:		
Net loss recognized in OCI, net of tax ⁽¹⁾	\$(187	) \$(640
Net loss reclassified from accumulated OCI into income, net of tax ⁽²⁾	\$(89	) \$(249
Net gain recognized in income ⁽³⁾	\$—	\$—

(1) Net change in the fair value of the effective portion classified in other comprehensive income ("OCI").

(2) Effective portion classified as selling, general and administrative expense.

(3) Ineffective portion and amount excluded from effectiveness testing classified in selling, general and administrative expense.

NOTE 10: DEBT AND OTHER OBLIGATIONS**Financing Obligation**

On December 1, 2013, Kulicke & Soffa Pte Ltd. ("Pte"), the Company's wholly owned subsidiary, signed a lease with DBS Trustee Limited as trustee of Mapletree Industrial Trust (the "Landlord") to lease from the Landlord approximately 198,000 square feet, representing approximately 70% of a building in Singapore as our corporate headquarters, as well as a manufacturing, technology, sales and service center (the "Building"). The lease has a 10-year non-cancellable term (the "Initial Term") and contains options to renew for 2 further 10-year terms. The annual rent and service charge for the Initial Term range from \$4 million to \$5 million Singapore dollars.

Pursuant to ASC No. 840, Leases ("ASC 840"), we have classified the Building on our balance sheet as Property, Plant and Equipment, which we are depreciating over its estimated useful life of 25 years. We concluded that the term of the financing obligation is 10 years. This is equal to the non-cancellable term of our lease agreement with the Landlord. At the inception of the lease, the asset and financing obligation recorded on the balance sheet was \$20.0 million, which was based on an interest rate of 6.3% over the Initial Term. The financing obligation will be settled through a combination of periodic cash rental payments and the return of the leased property at the expiration of the lease. We do not report rent expense for the property, which is deemed owned for accounting purposes. Rather, rental payments required under the lease are considered debt service and applied to the deemed landlord financing obligation and interest expense. The Building and financing obligation are being amortized in a manner that will not generate a gain or loss upon lease termination.

Table of ContentsKULICKE AND SOFFA INDUSTRIES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Unaudited (continued)

Credit Facility and Bank Guarantee

On November 22, 2013, the Company obtained a \$5.0 million credit facility with Citibank in connection with the issuance of a bank guarantee to the Landlord in connection with the lease. As of January 2, 2016, the outstanding bank guarantee is \$3.5 million Singapore dollars.

NOTE 11: 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. 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 during the three months ended January 2, 2016 and December 27, 2014:

(in thousands)	Three months ended	
	January 2, 2016	December 27, 2014
Cash	\$393	\$295

Stock Repurchase Program

On August 14, 2014, the Company's Board of Directors authorized a program (the "Program") to repurchase up to \$100 million of the Company's common stock on or before August 14, 2017. The Company has entered into a written trading plan under Rule 10b5-1 of the Exchange Act, to facilitate repurchases under the Program. The Program may be suspended or discontinued at any time and is funded using the Company's available cash. Under the Program, shares may be repurchased through open market and/or privately negotiated transactions at prices deemed appropriate by management. The timing and amount of repurchase transactions under the Program depend on market conditions as well as corporate and regulatory considerations. During the three months ended January 2, 2016, the Company repurchased a total of 1.2 million shares of common stock at a cost of \$12.8 million. The stock repurchases were recorded in the periods they were delivered, and the payment of \$12.8 million was accounted for as treasury stock in the Company's Consolidated Balance Sheet. The Company records treasury stock purchases under the cost method using the first-in, first-out (FIFO) method. Upon reissuance of treasury stock, amounts in excess of the acquisition cost are credited to additional paid-in capital. If the Company reissues treasury stock at an amount below its acquisition cost and additional paid-in capital associated with prior treasury stock transactions is insufficient to cover the difference between acquisition cost and the reissue price, this difference is recorded against retained earnings.

Accumulated Other Comprehensive Loss

The following table reflects accumulated other comprehensive income reflected on the Consolidated Balance Sheets as of January 2, 2016 and October 3, 2015:

(in thousands)	As of	
	January 2, 2016	October 3, 2015
Loss from foreign currency translation adjustments	\$(1,291)	) \$(161)
Unrecognized actuarial loss Switzerland pension plan, net of tax	(561)	) (590)
Switzerland pension plan curtailment	(346)	) (346)
Unrealized loss on hedging	(98)) —
Accumulated other comprehensive loss	\$(2,296)	) \$(1,097)

Table of Contents

KULICKE AND SOFFA INDUSTRIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Unaudited (continued)

Equity-Based Compensation

As of January 2, 2016, the Company had seven equity-based employee compensation plans (the “Employee Plans”) 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 January 2, 2016, the Company’s one active plan, the 2009 Equity Plan, had 2.9 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 that 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 GICS (45301020) 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 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 by the Company. 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 January 2, 2016 and December 27, 2014 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 January 2, 2016 and December 27, 2014:

(shares in thousands)	Three months ended	
	January 2, 2016	December 27, 2014
Market-based restricted stock	166	232
Time-based restricted stock	571	472
Common stock	—	13
Equity-based compensation in shares	737	717

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 January 2, 2016 and December 27, 2014:

(in thousands)	Three months ended	
	January 2, 2016	December 27, 2014
Cost of sales	\$ 128	\$ 128

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

Selling, general and administrative (1)	(770	) 2,499
Research and development	704	808
Total equity-based compensation expense	\$62	\$3,435

(1) The selling, general and administrative expense for the three months ended January 2, 2016, includes the reversal of a \$2.0 million expense due to the forfeiture of stock awards in connection with the October 2015 retirement of the Company's CEO.

Table of ContentsKULICKE AND SOFFA INDUSTRIES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Unaudited (continued)

The following table reflects equity-based compensation expense, by type of award, for the three months ended January 2, 2016 and December 27, 2014:

(in thousands)	Three months ended	
	January 2, 2016	December 27, 2014
Market-based restricted stock	\$(1,381	) \$1,350
Time-based restricted stock	1,486	1,869
Performance-based restricted stock	(43	) 33
Stock options	—	3
Common stock	—	180
Total equity-based compensation expense (1)	\$62	\$3,435

(1) The equity-based compensation expense for the three months ended January 2, 2016, includes the reversal of a \$2.0 million expense due to the forfeiture of stock awards in connection with the October 2015 retirement of the Company's CEO.

NOTE 12: EARNINGS PER SHARE

Basic income per share is calculated using the weighted average number of shares of common stock outstanding during the period. Stock options and restricted stock are included in the calculation of diluted earnings per share, except when their effect would be anti-dilutive. For the three months ended January 2, 2016, 0.1 million shares of restricted stock were excluded due to the Company's net loss.

The following table reflects a reconciliation of the shares used in the basic and diluted net income per share computation for the three months ended January 2, 2016 and December 27, 2014:

(in thousands, except per share)	Three months ended			
	January 2, 2016		December 27, 2014	
	Basic	Diluted	Basic	Diluted
NUMERATOR:				
Net (loss) / income	\$(91	) \$(91	) \$7,842	\$7,842
DENOMINATOR:				
Weighted average shares outstanding - Basic	70,738	70,738	76,888	76,888
Stock options	—	—	—	94
Time-based restricted stock	—	—	—	213
Market-based restricted stock	—	—	—	237
Weighted average shares outstanding - Diluted	—	70,738	—	77,432
EPS:				
Net income per share - Basic	\$—	\$—	\$0.10	\$0.10
Effect of dilutive shares	—	—	—	—
Net income per share - Diluted	—	\$—	—	\$0.10

Table of ContentsKULICKE AND SOFFA INDUSTRIES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Unaudited (continued)

NOTE 13: INCOME TAXES

The following table reflects the provision for income taxes and the effective tax rate for the three months ended January 2, 2016 and December 27, 2014:

(dollar amounts in thousands)	Three months ended	
	January 2, 2016	December 27, 2014
(Loss) / Income from operations before income taxes	\$(1,356)	\$9,685
Income tax (benefit) / expense	(1,265)	1,843
Net (loss) / income	\$(91)	\$7,842
Effective tax rate (benefit)	(93.3)	) % 19.0

For the three months ended January 2, 2016, the effective income tax rate differed from the federal statutory tax rate primarily due to profits from foreign operations subject to a lower statutory tax rate than the U.S. statutory tax rate, tax benefits from domestic research expenditures, and the impact of tax holidays, offset by an increase for deferred taxes on unremitted earnings, an increase in valuation allowance against certain foreign deferred tax assets and foreign withholding taxes.

For the three months ended December 27, 2014, the effective income tax rate differed from the federal statutory tax rate primarily due to profits from foreign operations subject to a lower statutory tax rate than the U.S. statutory tax rate, and the impact of tax holidays, offset by an increase for deferred taxes on unremitted earnings, other U.S. deferred taxes and foreign withholding taxes.

The effective tax rate (benefit) for the period ended January 2, 2016 of (93.3)% reflects a year-to-date tax benefit of \$(1.3) million on a year-to-date loss of \$(1.4) million. The effective tax rate for the period ended December 27, 2014 of 19.0% reflects a year-to-date tax expense of \$1.8 million on a year-to-date income of \$9.7 million. The tax benefit for the period ended January 2, 2016 of \$(1.3) million differed from the tax expense for the period ended December 27, 2014 of \$1.8 million was primarily due to higher profits in foreign jurisdiction with lower tax rate and an increase in tax benefit from research and development expenditures. On December 18, 2015, the U.S. federal research tax credits have been permanently extended which resulted in the Company recording a discrete tax benefit for the period ended January 2, 2016.

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. In addition, changes in assertion for foreign earnings permanently or non-permanently reinvested as a result of changes in facts and circumstances could significantly impact the effective tax rate. The Company regularly assesses the effects resulting from these factors to determine the adequacy of its provision for income taxes.

It is reasonably possible that the amount of the unrecognized tax benefit with respect to certain unrecognized tax positions will increase or decrease during the next 12 months due to the expected lapse of statutes of limitation and / or settlements of tax examinations. The Company is currently under income tax examination by tax authorities in certain foreign jurisdictions.

NOTE 14: SEGMENT INFORMATION

The Company operates two reportable segments: Equipment and Expendable Tools. The Equipment segment manufactures and sells a line of ball bonders, wedge bonders, advanced packaging and surface mount technology solutions. 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.

Table of Contents

KULICKE AND SOFFA INDUSTRIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Unaudited (continued)

The following table reflects operating information by segment for the three months ended January 2, 2016 and December 27, 2014:

(in thousands)	Three months ended	
	January 2, 2016	December 27, 2014
Net revenue:		
Equipment	\$92,974	\$90,956
Expendable Tools	15,560	16,482
Net revenue	108,534	107,438
Income from operations:		
Equipment	(6,426	) 5,446
Expendable Tools	4,721	4,280
Income from operations	\$(1,705	) \$9,726

The following table reflects assets by segment as of January 2, 2016 and October 3, 2015:

(in thousands)	As of	
	January 2, 2016	October 3, 2015
Segment assets:		
Equipment	\$799,245	\$828,471
Expendable Tools	84,847	75,995
Total assets	\$884,092	\$904,466

The following tables reflect capital expenditures and depreciation expense for the three months ended January 2, 2016 and December 27, 2014:

(in thousands)	Three months ended	
	January 2, 2016	December 27, 2014
Capital expenditures:		
Equipment	\$1,071	\$1,736
Expendable Tools	323	517
Capital expenditures	\$1,394	\$2,253
(in thousands)	Three months ended	
	January 2, 2016	December 27, 2014
Depreciation expense:		
Equipment	\$1,806	\$1,585
Expendable Tools	579	642
Depreciation expense	\$2,385	\$2,227

NOTE 15: COMMITMENTS, CONTINGENCIES AND CONCENTRATIONS

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 warranty costs.

Table of ContentsKULICKE AND SOFFA INDUSTRIES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Unaudited (continued)

The following table reflects the reserve for product warranty activity for the three months ended January 2, 2016 and December 27, 2014:

(in thousands)	Three months ended	
	January 2, 2016	December 27, 2014
Reserve for product warranty, beginning of period	\$1,856	\$1,542
Provision for product warranty	386	199
Product warranty costs paid	(625	) (526
Reserve for product warranty, end of period	\$1,617	\$1,215
Other Commitments and Contingencies		

The following table reflects obligations not reflected on the Consolidated Balance Sheet as of January 2, 2016:

(in thousands)	Total	Payments due by fiscal year				
		2016	2017	2018	2019	thereafter
Inventory purchase obligation (1)	\$104,808	\$104,808	\$—	\$—	\$—	\$—
Operating lease obligations (2)	30,508	3,680	4,392	3,704	3,435	15,297
Total	\$135,316	\$108,488	\$4,392	\$3,704	\$3,435	\$15,297

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

The Company has minimum rental commitments under various leases (excluding taxes, insurance, maintenance (2) and repairs, which are also paid by the Company) 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 was considered the owner of the Building during the construction phase of the ADL. The building was completed on December 1, 2013 and Pte signed an agreement with the Landlord to lease from the Landlord approximately 198,000 square feet, representing approximately 70% of the Building. Following the completion of construction, we performed a sale-leaseback analysis pursuant to ASC 840-40 and determined that because of our continuing involvement, ASC 840-40 precluded us from derecognizing the asset and associated financing obligation. As such, we reclassified the asset from construction in progress to Property, Plant and Equipment and began to depreciate the building over its estimated useful life of 25 years. We concluded that the term of the financing obligation is 10 years. This is equal to the non-cancellable term of our lease agreement with the Landlord. As of January 2, 2016, we recorded a financing obligation related to the Building of \$16.5 million (see Note 10 above). The financing obligation is not reflected in the table above.

Concentrations

The following table reflects significant customer concentrations as a percentage of net revenue for the three months ended January 2, 2016 and December 27, 2014:

Haoseng Industrial Co., Ltd	Three months ended	
	January 2, 2016	December 27, 2014
	16.5	% *

* Represents less than 10% of net revenue

The following table reflects significant customer concentrations as a percentage of total accounts receivable as of January 2, 2016 and December 27, 2014:

As of	January 2, 2016	December 27, 2014
-------	-----------------	-------------------

Haoseng Industrial Co., Ltd	21.7	%	19.0	%
-----------------------------	------	---	------	---

23

Table of Contents

KULICKE AND SOFFA INDUSTRIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Unaudited (continued)

NOTE 16: SUBSEQUENT EVENTS

On January 9, 2016, the Company finalized the valuation of the tangible and identifiable intangible assets and liabilities in connection with the acquisition of Assembléon and no further adjustment was recorded.

Table of Contents

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 (the "Securities Act") and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), 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, or decreasing or weakening, 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 bonder, advanced packaging and surface mount technology equipment and for expendable tools.

Generally, words such as "may," "will," "should," "could," "anticipate," "expect," "intend," "estimate," "plan," "continue," "g," "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 October 3, 2015 (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 ("ICs"), 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 continuing improvement and optimization of operations. Cost reduction efforts remain an important part of our normal ongoing operations and are expected to generate savings without compromising overall product quality and service levels.

Table of Contents

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 can positively or negatively affect our financial performance. The sales mix of IDM and OSAT customers in any period also impacts financial performance, as changes in 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 has historically been 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. Our visibility into future demand is generally limited, forecasting is difficult, and we generally experience typical industry seasonality.

To limit potential adverse cyclical, seasonal and macroeconomic effects on our financial position, we have continued our efforts to maintain a strong balance sheet. As of January 2, 2016, our total cash and cash equivalents were \$492.9 million, a \$5.7 million decrease from the prior fiscal year end (related primarily to our common stock repurchase program, offset in part by working capital changes since the prior year end). We believe this strong cash position will allow us to continue to invest in product development and pursue non-organic opportunities.

On August 14, 2014, the Company's Board of Directors authorized a program (the "Program") to repurchase up to \$100 million of the Company's common stock on or before August 14, 2017. The Company has entered into a written trading plan under Rule 10b5-1 of the Exchange Act to facilitate repurchases under the Program. The Program may be suspended or discontinued at any time and is funded using the Company's available cash. Under the Program, shares may be repurchased through open market and/or privately negotiated transactions at prices deemed appropriate by management. The timing and amount of repurchase transactions under the Program depend on market conditions as well as corporate and regulatory considerations. During the three months ended January 2, 2016, the Company repurchased a total of 1.2 million shares of common stock at a cost of \$12.8 million under the Program. As of January 2, 2016, our remaining stock repurchase authorization under the Program was approximately \$8.7 million.

On January 9, 2015, Kulicke & Soffa Holdings B.V. (“KSH”), the Company's wholly owned subsidiary, acquired all of the outstanding equity interests of Assembléon B.V. (“Assembléon”), a subsidiary of Assembléon Holding B.V.. The cash purchase price of approximately \$97.4 million (EUR 80 million) consisted of \$72.5 million for 100% of the equity of Assembléon and \$24.9 million which was used by Assembléon to settle intercompany loans with its parent company.

Assembléon is a leading technology solutions provider that, together with its subsidiaries, offers assembly equipment, processes and services for the automotive, industrial, and advanced packaging markets. The acquisition expands the Company's presence in automotive, industrial and advanced packaging markets.

Technology Leadership

We compete largely by offering our customers among the most advanced equipment and expendable tools available for the interconnect processes. Our equipment is typically the most productive and has the highest levels of process capability, and as a result, we believe it has a 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 strong market positions of our ball bonder, wedge 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

Table of Contents

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, silver alloy wire 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, which have made copper wire widely accepted and significantly reduced the cost of assembling an integrated circuit. Our leadership also has allowed us to maintain a competitive position in the latest generations of gold and copper ball bonders, which enables our customers to handle the leading technologies in terms of bond pad pitch, silicon with the latest node and complex wire bonding requirement. We continue to see demand for our extended large bondable area ("ELA") configured machines. This ELA option is now available on all of our Power Series^{PS} 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 memory assembly, in particular for NAND Flash storage. We expect the growth in the memory market to be in the solid-state drive.

Our leading technology for wedge bonder equipment uses ribbon or heavy wire for different applications such as power electronics, automotive and semiconductor applications. The advanced interconnect capabilities of PowerFusion^{PS} improve the processing of high-density power packages, due to an expanded bondable area, wider leadframe capability, superior indexing accuracy and teach mode. We have also completed the design and development of our next generation hybrid wedge bonder, Asterion. In all cases, we are making a concerted 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. Many of these initiatives are in the early stages of development and some have yielded results.

Another example of our developing equipment for high-growth niche markets is our AT Premier PLUS. 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 have expanded the use of AT Premier PLUS for wafer level wire bonding for micro-electro-mechanical systems ("MEMS") and other sensors.

Our technology leadership and bonding process know-how have enabled us to develop highly function-specific equipment with best-in-class throughput and accuracy. This forms the foundation for our advanced packaging equipment development. We established a dedicated team to develop and manufacture advanced packaging bonders for the emerging 2.5 dimensional integrated circuit ("2.5D IC") and 3 dimensional integrated circuit ("3D IC") markets. By reducing the interconnect dimensions, 2.5D ICs and 3D ICs are expected to provide form factor, performance and power efficiency enhancements over traditional flip-chip packages in production today. High-performance processing and memory applications, in addition to mobile devices such as smartphones and tablets, are anticipated to be earlier adopters of this new packaging technology.

With the acquisition of Assembléon, we broadened our advanced packaging solutions for mass reflow ("APMR") to include flip chip, wafer level packaging ("WLP"), fan-out wafer level packaging ("FOWLP"), advanced package-on-package, embedded die, and System-in-Package ("SiP"). The acquisition also enables us to diversify our business into the automotive, medical and industrial markets with advanced surface-mount technology ("SMT") pick and place solutions.

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.

Table of Contents

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 January 2, 2016 and December 27, 2014, respectively:

(dollar amounts in thousands)	Three months ended January 2, 2016		December 27, 2014		
	Net revenues	% of total net revenue	Net revenues	% of total net revenue	
Equipment	\$92,974	85.7	% \$90,956	84.7	%
Expendable Tools	15,560	14.3	% 16,482	15.3	%
	\$108,534	100.0	% \$107,438	100.0	%

Equipment Segment

We manufacture and sell a line of ball bonders, wafer level bonders, wedge bonders, advanced packaging and surface mount technology equipment 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. Wafer level bonders mechanically apply bumps to die, typically while still in the wafer format, for some variants of the flip chip assembly process. 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. 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.

Table of Contents

Our principal Equipment segment products include:

Business Line	Product Name (1)	Typical Served Market
Ball bonders	IConn ^{PS} PLUS series (2) (3) (4)	Advanced and ultra fine pitch applications
	IConn ^{PS} ProCu series (2) (3)	High-end copper wire applications demanding advanced process capability and high productivity
	IConn ^{PS} ProCu PLUS series (2) (3) (4)	High-end copper wire applications demanding advanced process capability and high productivity
	IConn ^{PS} MEM PLUS series (2) (3) (4)	Memory applications
	ConnX ^{PS} PLUS series (2) (3) (4)	High productivity bonder for low-to-medium pin count applications
	ConnX ^{PS} LED ConnX ^{PS} LED PLUS	LED applications
	AT Premier PLUS	Advanced wafer level bonding application
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®
	PowerFusion ^{PS} TL	Power semiconductors using either aluminum wire or PowerRibbon®
	PowerFusion ^{PS} HL	Smaller power packages using either aluminum wire or PowerRibbon®
	Asterion TM	Power hybrid and automotive modules with extended area using heavy and thin aluminum

(1) Power Series (“PS”)

(2) Standard version

(3) Large area version

(4) Extended large area version

Table of Contents

Business Line	Product Name (1)	Typical Served Market
Advanced Packaging and Surface Mount Technology	APAMA C2S (APLR)	Thermo-compression for chip-to-substrate, chip-to-chip and high accuracy flip chip ("HA FC") bonding applications
	APAMA C2W (APLR)	Thermo-compression for chip-to-wafer, HA FC and high density fan-out wafer level packaging ("HD FOWLP") bonding applications
	Hybrid Series (APMR)	Advanced packages assembly applications requiring high throughput such as flip chip, WLP, FOWLP, embedded die, SiP, package-on-package ("POP"), and modules
	iX Series (SMT)	Advanced SMT applications requiring extremely high output of passive and active components
	iFlex Series (SMT)	Advanced SMT applications requiring multi-lane or line balancing solutions for standard or oddform passive and active components

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 - a family of assembly equipment that is setting new standards for performance, productivity, upgradeability, and ease of use.

Our portfolio of ball bonding products includes:

- The IConn^{PS} PLUS series: high-performance ball bonders which can be configured for either gold or copper wire.
 - The IConn^{PS} ProCu series and IConn^{PS} ProCu PLUS series: high-performance copper wire ball bonders for advanced wafer nodes at 28 nanometer and below.
 - The IConn^{PS} MEM PLUS series: ball bonders designed for the assembly of stacked memory devices.
 - The ConnX^{PS} PLUS series: cost-performance ball bonders which can be configured for either gold or copper wire.
 - The ConnX^{PS} LED and ConnX^{PS} LED PLUS: ball bonders targeted specifically at the fast growing LED market.
- The AT Premier PLUS: ball bonders which utilize 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.

Our Power Series products are setting new standards in wire bonding. Our ball bonders are capable of performing very fine pitch bonding, as well as creating the complex loop shapes needed in the assembly of advanced semiconductor packages and bonding on the latest silicon node-28 nanometer. Most of our installed base of gold wire bonders can also be retrofitted for copper applications through kits we sell separately.

Wedge Bonders

We are the leaders in the design and manufacture of 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 high reliability interconnections of rechargeable batteries in hybrid and electric automotive applications.

Table of Contents

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 bonders designed specifically for power semiconductor applications.
 - The 7200HD: heavy wire wedge bonders designed for smaller power packages using either aluminum wire or ribbon.
 - The PowerFusion^{PS} Semiconductor Wedge Bonders - Configurable in single, dual and multi-head configurations using aluminum wire and PowerRibbonTM:
 - The PowerFusion^{PS} TL: designed for single row leadframe and high volume power semiconductor applications.
 - The PowerFusion^{PS} HL and PowerFusion^{PS} HLx: designed for advanced power semiconductor applications.
 - The AsterionTM: latest generation hybrid wedge bonder. Larger area, higher speed and accuracy wedge bonders for power modules, automotive packages, battery applications and other aluminium wedge interconnect applications.
- While wedge bonding traditionally utilizes aluminum wire, all of our wedge bonders may 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.

Our PowerFusion^{PS} series are driven by new powerful direct-drive motion systems and expanded pattern recognition capabilities. The advanced interconnect capabilities of PowerFusion^{PS} improves the processing of high-density power packages, due to an expanded bondable area, wider leadframe capability, superior indexing accuracy and teach mode. Advanced Packaging and Surface Mount Technology

Our APAMA (Advanced Packaging with Adaptive Machine Analytics) C2S (chip-to-substrate) bonder is designed for high accuracy and high throughput flip chip, thermo-compression bonding applications. It delivers die-stacking solutions for 2.5D and 3D or through silicon via ("TSV") ICs.

In September 2015, we introduced the APAMA Chip-to-Wafer ("C2W") bonder. The C2W system enables APAMA's high throughput architecture to be applied to 2.5D and 3D packages using silicon or glass interposers. The C2W dual head system also provides a highly adaptable manufacturing platform addressing applications that require highly accurate die placement such as High Density FOWLP. The C2W platform, combined with the capacity of the C2S platform, enables the APAMA TCB systems to support assembly for the full range of stacked TSV products.

With the acquisition of Assembléon, we have broadened our product offering with APMR solutions to address flip chip, WLP, FOWLP, POP, embedded die, SiP and modules markets. The acquisition also enables us to diversify our business while further expanding market reach into the automotive, medical and industrial segments with SMT pick and place solutions.

Other Equipment Products and Services

We also offer spare parts, equipment repair, maintenance and servicing, training services, and upgrades for our equipment through our Support Services business unit.

Our K&S Care service is designed to help customers operate their machines at an optimum level under the care of our trained specialists. K&S Care includes a range of programs, offering different levels of service depending on customer needs.

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. In January 2015, we introduced QuantisTM QFN Capillary, the latest copper wire bonding capillary designed for QFN (Quad Flat No-lead) application.
-

Dicing blades: expendable tools used by semiconductor manufacturers to cut silicon wafers into individual semiconductor die or to cut packaged semiconductor units into individual units.

Bonding wedges: expendable tools used in wedge bonders. Wedge tools are used for both wire and ribbon applications.

Table of Contents

RESULTS OF OPERATIONS

The following table reflects our income from operations for the three months ended January 2, 2016 and December 27, 2014:

(dollar amounts in thousands)	Three months ended		\$ Change	% Change	
	January 2, 2016	December 27, 2014			
Net revenue	\$108,534	\$107,438	\$1,096	1.0	%
Cost of sales	58,113	52,704	5,409	10.3	%
Gross profit	50,421	54,734	(4,313)	(7.9))%
Selling, general and administrative	27,932	25,427	2,505	9.9	%
Research and development	24,194	19,581	4,613	23.6	%
Operating expenses	52,126	45,008	7,118	15.8	%
Income from operations	\$(1,705)	) \$9,726	\$(11,431)	(117.5))%

Our net revenues for the three months ended January 2, 2016 increased as compared to our net revenues for the three months ended December 27, 2014. The movement in net revenue is largely driven by customer demand. The semiconductor industry is volatile and our operating results have fluctuated significantly in the past and are expected to continue to do so in the future.

Net Revenue

Approximately 88.4% and 88.9% of our net revenue for the three months ended January 2, 2016 and December 27, 2014, respectively, was for shipments to customer locations outside of the U.S., primarily in the Asia/Pacific region, and we expect sales outside of the U.S. to continue to represent the majority of our future revenue.

The following table reflects net revenue by business segment for the three months ended January 2, 2016 and December 27, 2014:

(dollar amounts in thousands)	Three months ended		\$ Change	% Change	
	January 2, 2016	December 27, 2014			
Equipment	\$92,974	\$90,956	\$2,018	2.2	%
Expendable Tools	15,560	16,482	(922)	(5.6))%
Total net revenue	\$108,534	\$107,438	\$1,096	1.0	%

Equipment

The following table reflects the components of Equipment net revenue change between the three months ended January 2, 2016 and December 27, 2014:

(in thousands)	Three months ended		\$ Change
	Price	Volume	
Equipment	\$(4,939)	) \$6,957	\$2,018

For the three months ended January 2, 2016, the higher Equipment net revenue as compared to prior year period was primarily due to the inclusion of APMR and SMT products revenue. This was partially offset by the lower volume and unfavorable price variance in our ball bonders. The lower volume for ball bonders sales was mainly attributable to the lower equipment utilization rate by customers, and therefore lower demand from our customers. The unfavorable price variance was due to the unfavorable customer mix.

Table of Contents

Expendable Tools

The following table reflects the components of Expendable Tools net revenue change between the three months ended January 2, 2016 and December 27, 2014:

(in thousands)	January 2, 2016 vs. December 27, 2014		
	Three months ended		
	Price	Volume	\$ Change
Expendable Tools	\$(428)	\$(494)	\$(922)

For the three months ended January 2, 2016, the lower Expendable Tools net revenue as compared to prior year period was primarily due to lower volume and price reduction in our wire bonding tools business.

Gross Profit

The following table reflects gross profit by business segment for the three months ended January 2, 2016 and December 27, 2014:

(dollar amounts in thousands)	Three months ended			
	January 2, 2016	December 27, 2014	\$ Change	% Change
Equipment	\$41,393	\$44,857	\$(3,464)	(7.7)%
Expendable Tools	9,028	9,877	(849)	(8.6)%
Total gross profit	\$50,421	\$54,734	\$(4,313)	(7.9)%

The following table reflects gross profit as a percentage of net revenue by business segment for the three months ended January 2, 2016 and December 27, 2014:

	Three months ended		Basis Point Change
	January 2, 2016	December 27, 2014	
Equipment	44.5	% 49.3	% (480)
Expendable Tools	58.0	% 59.9	% (190)
Total gross margin	46.5	% 50.9	% (440)

Equipment

The following table reflects the components of Equipment gross profit change between the three months ended January 2, 2016 and December 27, 2014:

(in thousands)	January 2, 2016 vs. December 27, 2014			
	Three months ended			
	Price	Cost	Volume	\$ Change
Equipment	\$(4,939)	\$(615)	\$2,090	\$(3,464)

For the three months ended January 2, 2016, the lower Equipment gross profit as compared to prior year period was primarily due to the lower volume and unfavorable price variance in our ball bonders. The lower volume for ball bonders sales was mainly attributable to the lower equipment utilization rate by customers and therefore lower demand from our customers. The unfavorable price variance was due to the unfavorable customer mix. This was partially offset by the inclusion of APMR and SMT products revenue.

Expendable Tools

The following table reflects the components of Expendable Tools gross profit change between the three months ended January 2, 2016 and December 27, 2014:

(in thousands)	January 2, 2016 vs. December 27, 2014			
	Three months ended			
	Price	Cost	Volume	\$ Change
Expendable Tools	\$(428)	\$(109)	\$(312)	\$(849)

For the three months ended January 2, 2016, the lower Expendable Tools gross profit as compared to prior year period was primarily due to lower volume and price reduction in our wire bonding tools business.

Table of Contents

Operating Expenses

The following table reflects operating expenses as a percentage of net revenue for the three months ended January 2, 2016 and December 27, 2014:

	Three months ended		Basis point change
	January 2, 2016	December 27, 2014	
Selling, general & administrative	25.7	% 23.7	% 200
Research & development	22.3	% 18.2	% 410
Total	48.0	% 41.9	% 610

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

For the three months ended January 2, 2016, higher SG&A as compared to prior year period was primarily due to additional SG&A expenses of \$8.2 million from our new APMR and SMT products. This was partially offset by lower staff costs of \$2.6 million due to streamlining of global operations and functions, decrease in incentive compensation of \$2.0 million as a result of current fiscal quarter loss, and lower amortization expenses of \$1.2 million relating to wedge bonder developed technology, which were fully amortized in fiscal year 2015.

Research and Development (“R&D”)

For the three months ended January 2, 2016, higher R&D expenses as compared to prior year period was primarily due to additional investment in the development of advanced packaging products.

Income from Operations

For the three months ended January 2, 2016, total income from operations was lower by \$11.4 million as compared to the three months ended December 27, 2014. This was primarily due to lower gross profit and higher operating expenses as explained above.

Interest Income and Expense

The following table reflects interest income and interest expense for the three months ended January 2, 2016 and December 27, 2014:

(dollar amounts in thousands)	Three months ended		\$ Change	% Change	
	January 2, 2016	December 27, 2014			
Interest income	\$622	\$262	\$360	137.4	%
Interest expense	\$(273	) \$(303	) \$30	(9.9)%

Interest income for the three months ended January 2, 2016 was higher by \$0.4 million as compared to the three months ended December 27, 2014. This was primarily due to higher returns derived from changes in investment mix and higher market interest rate.

Interest expense for the three months ended January 2, 2016 was attributable to the interest on financing obligation relating to the new building, which was incurred subsequent to the completion of the new building in December 2013 (Refer to Note 10 of Item 1).

Table of Contents

Provision for Income Taxes

The following table reflects the provision for income taxes and the effective tax rate for the three months ended January 2, 2016 and December 27, 2014:

(in thousands)	Three months ended	
	January 2, 2016	December 27, 2014
(Loss) / Income from operations before income taxes	\$(1,356)	\$9,685
Income tax (benefit) / expense	(1,265)	1,843
Net (loss) / income	\$(91)	\$7,842
Effective tax rate (benefit)	(93.3)%	19.0 %

For the three months ended January 2, 2016, the effective income tax rate differed from the federal statutory tax rate primarily due to profits from foreign operations subject to a lower statutory tax rate than the U.S. statutory tax rate, tax benefits from domestic research expenditures, and the impact of tax holidays, offset by an increase for deferred taxes on unremitted earnings, an increase in valuation allowance against certain foreign deferred tax assets and foreign withholding taxes.

For the three months ended December 27, 2014, the effective income tax rate differed from the federal statutory tax rate primarily due to profits from foreign operations subject to a lower statutory tax rate than the U.S. statutory tax rate, and the impact of tax holidays, offset by an increase for deferred taxes on unremitted earnings, other U.S. deferred taxes and foreign withholding taxes.

The effective tax rate (benefit) for the period ended January 2, 2016 of (93.3)% reflects a year-to-date tax benefit of \$(1.3) million on a year-to-date loss of \$(1.4) million. The effective tax rate for the period ended December 27, 2014 of 19.0% reflects a year-to-date tax expense of \$1.8 million on a year-to-date income of \$9.7 million. The tax benefit for the period ended January 2, 2016 of \$(1.3) million differed from the tax expense for the period ended December 27, 2014 of \$1.8 million primarily due to higher profits in foreign jurisdiction with lower tax rate and an increase in tax benefit from research and development expenditures. On December 18, 2015, the U.S. federal research tax credits was extended which resulted in the Company recording a discrete tax benefit for the period ended January 2, 2016.

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. In addition, changes in assertion for foreign earnings permanently or non-permanently reinvested as a result of changes in facts and circumstances could significantly impact the effective tax rate. The Company regularly assesses the effects resulting from these factors to determine the adequacy of its provision for income taxes.

It is reasonably possible that the amount of the unrecognized tax benefit with respect to certain unrecognized tax positions will increase or decrease during the next 12 months due to the expected lapse of statutes of limitation and / or settlements of tax examinations. The Company is currently under income tax examination by tax authorities in certain foreign jurisdictions.

Table of Contents

LIQUIDITY AND CAPITAL RESOURCES

The following table reflects total cash and investments as of January 2, 2016 and October 3, 2015:

(dollar amounts in thousands)	As of		Change
	January 2, 2016	October 3, 2015	
Cash and cash equivalents	\$492,935	\$498,614	\$(5,679)
Percentage of total assets	55.8	% 55.1	%

The following table reflects summary Consolidated Statement of Cash Flow information for the three months ended January 2, 2016 and December 27, 2014:

(in thousands)	Three months ended	
	January 2, 2016	December 27, 2014
Net cash provided by operating activities	\$7,694	\$46,442
Net cash used in investing activities	(1,612)	(4,176)
Net cash used in financing activities	(12,425)	(7,621)
Effect of exchange rate changes on cash and cash equivalents	664	(36)
Changes in cash and cash equivalents	\$(5,679)	\$34,609
Cash and cash equivalents, beginning of period	498,614	587,981
Cash and cash equivalents, end of period	\$492,935	\$622,590

Three months ended January 2, 2016

Net cash provided by operating activities was primarily the result of working capital changes of \$6.2 million and non-cash adjustments of \$1.6 million. The change in working capital was primarily driven by a decrease in inventories of \$8.1 million and offset by a decrease in income tax payables of \$1.1 million and a net decrease from other working capital changes of \$0.8 million.

The decrease in inventories was due to higher inventories held at the end of the fourth quarter of fiscal 2015 in anticipation of a scheduled scale down of manufacturing activity in the first quarter of fiscal 2016. The lower income tax payables was due to net payments made.

Net cash used in investing activities was primarily due to net cash outflow for the capital expenditures of \$1.7 million. This was partially offset by proceeds from sales of property, plant and equipment of \$0.1 million.

Net cash used in financing activities relates to the repurchase of common stock of \$12.8 million and partially offset by the excess tax benefits from stock-based compensation arrangements of \$0.4 million.

Three months ended December 27, 2014

Net cash provided by operating activities was primarily the result of net income of \$7.8 million, non-cash adjustments of \$6.1 million and working capital changes of \$32.5 million. The change in working capital was primarily driven by a decrease in accounts receivable of \$49.3 million and decrease in prepaid expenses and other current assets of \$4.0 million. This was partially offset by a decrease in accounts payable and accrued expenses of \$18.2 million and increase in inventories of \$2.9 million.

The decrease in accounts receivables is in line with lower sales in the first quarter of fiscal 2015 compared to the fourth quarter of fiscal 2014 due to variations in the timing of our customer orders within the seasonal cycle, as customers tend to add or replace equipment capacity by the end of the September quarter. The reduction in prepaid expenses and other current assets is due to lower goods and services tax of \$3.8 million and refunds of \$0.3 million of income taxes. The decrease in accounts payable and accrued expenses is due to lower purchases and the Company's shutdown of certain operations in selective locations in the first quarter of 2015. The increase in inventories is due to higher purchases during the first quarter of fiscal 2015 in anticipation of an increase in production in the second quarter of fiscal 2015.

Net cash used in investing activities was primarily due to capital expenditures of \$2.5 million and purchase of short-term investments of \$1.6 million.

Net cash used in financing activities relates to repurchase of common stock of \$7.6 million.

Table of Contents

Fiscal 2016 Liquidity and Capital Resource Outlook

We expect our fiscal 2016 capital expenditures to be between \$10.0 and \$11.0 million. Expenditures are anticipated to be primarily 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 that would provide capital for corporate purposes, working capital funding, additional liquidity needs or to fund future growth opportunities, including possible acquisitions. 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.

In 2014, the Company's Board of Directors authorized a program to repurchase up to \$100 million of the Company's common stock on or before August 14, 2017. The Company has entered into a written trading plan under Rule 10b5-1 of the Exchange Act to facilitate repurchases under the repurchase program. The repurchase program may be suspended or discontinued at any time and is funded using the Company's available cash. Under the program, shares may be repurchased through open market and/or privately negotiated transactions at prices deemed appropriate by management. The timing and amount of repurchase transactions under this program will depend on market conditions as well as corporate and regulatory considerations.

During the three months ended January 2, 2016, the Company repurchased a total of 1.2 million shares of common stock at a cost of \$12.8 million under the repurchase program. As of January 2, 2016, our remaining stock repurchase authorization under the repurchase program was approximately \$8.7 million. It is possible that the Board of Directors could extend or expand this program.

In January 2015, KSH, the Company's wholly owned subsidiary, acquired Assembléon, a subsidiary of Assembléon Holding B.V., in an all cash transaction for approximately \$97.4 million (EUR 80 million).

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 January 2, 2016 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 table below for additional information.

The following table reflects obligations and contingent payments under various arrangements as of January 2, 2016:

(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	\$1,901	\$—	\$—	\$—	\$1,901
Severance (1)	2,590		764		1,826
Operating lease retirement obligations	1,569	127	286		1,156
Long-term income taxes payable	4,986	—	—	—	4,986
Total Obligations and Contingent Payments reflected on the Consolidated Financial Statements	\$11,046	\$127	\$1,050	\$—	\$9,869
Contractual Obligations:					
Inventory purchase obligations (2)	\$104,808	\$104,808	\$—	\$—	\$—
Operating lease obligations (3)	30,508	4,806	7,834	6,767	11,101

Total Obligations and Contingent Payments not reflected on the Consolidated Financial Statements	\$135,316	\$109,614	\$7,834	\$6,767	\$11,101
--	-----------	-----------	---------	---------	----------

(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.

37

Table of Contents

(2) We order inventory components in the normal course of our business. A portion of these orders are non-cancellable 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, (3) which are also paid by us) primarily for various facility and equipment leases, which expire periodically through 2026 (not including lease extension options, if applicable).

The annual rent and service charge for our corporate headquarters range from \$4 million to \$5 million Singapore dollars and is not included in the table above.

In accordance with ASC No. 840, Leases ("ASC 840"), the Company was considered to be the owner of its headquarters during the construction phase due to its involvement in the asset construction. As a result of the Company's continued involvement during the lease term, the Company did not fulfill the criteria to apply sale-leaseback accounting under ASC 840. Therefore, at completion, the building remained on the Consolidated Balance Sheet, and the corresponding financing obligation was reclassified to long-term liability. As of January 2, 2016, we recorded a financing obligation of \$16.5 million. The financing obligation is not reflected in the table above.

Off-Balance Sheet Arrangements

Credit facility and bank guarantee

On November 22, 2013, the Company obtained a \$5.0 million credit facility with Citibank in connection with the issuance of a bank guarantee in connection with the lease agreement for our corporate headquarters. As of January 2, 2016 the outstanding bank guarantee is \$3.5 million Singapore dollars. As of January 2, 2016, we did not have any other off-balance sheet arrangements, such as 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 on 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 January 2, 2016, we had no available-for-sale investments.

Foreign Currency Risk

Our international 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 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, we have exposures related to the translation of subsidiary financial statements from their functional currency, the local currency, into its reporting currency, the U.S. dollar, most notably in Netherlands, China, Taiwan, Japan and Germany. Our U.S. operations also have foreign currency exposure due to net monetary assets denominated in currencies other than the U.S. dollar.

Based on our foreign currency exposure as of January 2, 2016, a 10.0% fluctuation could impact our financial position, results of operations or cash flows by \$3.0 to \$4.0 million. 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.

On October 15, 2015, the Company entered into foreign exchange forward contracts with notional amount of \$18.7 million. We entered into these foreign exchange forward contracts to hedge a portion of our forecasted foreign currency-denominated expenses in the normal course of business and, accordingly, they are not speculative in nature. These foreign exchange forward contracts have maturities of up to six months. We have foreign exchange forward contracts with notional amount of \$7.9 million outstanding as at January 2, 2016.

Item 4. - CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our interim Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of January 2, 2016. Based on that evaluation, the interim Chief Executive Officer and Chief Financial Officer concluded that, as of January 2, 2016 our disclosure controls and procedures were effective in providing reasonable assurance that 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 interim Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding disclosure.

Changes in Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP.

In connection with the evaluation by our management, including with the participation of our interim Chief Executive Officer and Chief Financial Officer, of our internal control over financial reporting, no changes during the three months ended January 2, 2016 were identified to have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents

PART II. - OTHER INFORMATION

Item 1A. - RISK FACTORS

There have been no material changes from the risk factors discussed in Part I, Item 1A, "Risk Factors", of our 2015 Annual Report on Form 10-K, except as follows:

Substantially all of our sales and manufacturing operations are located outside of the U.S., and we rely on independent foreign distribution channels for certain product lines, all of which subject us to risks, including risks from changes in trade regulations, currency fluctuations, political instability and conflicts.

Approximately 88.4%, and 91.2% of our net revenue for the three months ended January 2, 2016 and fiscal 2015, respectively, was for shipments to customers located outside of the U.S., primarily in the Asia/Pacific region. In the Asia/Pacific region, our customer base is also becoming more geographically concentrated as a result of economic and industry conditions. Approximately 39.5%, and 31.6% of our net revenue for the three months ended January 2, 2016 and fiscal 2015 was for shipments to customers located in China.

We expect our future performance to depend on our ability to continue to compete in foreign markets, particularly in the Asia/Pacific region. Some of these economies have been highly volatile, resulting in significant fluctuation in local currencies, and political and economic instability. These conditions may continue or worsen, which may materially and adversely affect our business, financial condition and operating results.

We also rely on non-U.S. suppliers for materials and components used in our products, and substantially all of our manufacturing operations are located in countries other than the U.S. We manufacture our ball, wedge and APAMA bonders in Singapore, our APMR and SMT solutions in the Netherlands, our dicing blades, capillaries and bonding wedges in China and capillary blanks in Israel. In addition, our corporate headquarters is in Singapore and we have sales, service and support personnel in China, Israel, Japan, Korea, Malaysia, the Philippines, Singapore, Taiwan, Thailand, the U.S., Germany, Mexico and the Netherlands. We also rely on independent foreign distribution channels for certain of our product lines. As a result, a major portion of our business is subject to the risks associated with international, and particularly Asia/Pacific, commerce, such as:

- risks of war and civil disturbances or other events that may limit or disrupt manufacturing and markets;
- seizure of our foreign assets, including cash;
- longer payment cycles in foreign markets;
- foreign exchange restrictions and capital controls;
- restrictions on the repatriation of our assets, including cash;
- significant foreign and U.S. taxes on repatriated cash;
- difficulties of staffing and managing dispersed international operations;
- possible disagreements with tax authorities;
- episodic events outside our control such as, for example, outbreaks of influenza or other illnesses;
- natural disasters such as earthquakes, fires or floods;
- tariff and currency fluctuations;
- changing political conditions;
- labor work stoppages and strikes in our factories or the factories of our suppliers;
- foreign governments' monetary policies and regulatory requirements;
- less protective foreign intellectual property laws;
 - new laws and regulations, such as Trans-Pacific Partnership Agreement (TPP); and
- legal systems which are less developed and may be less predictable than those in the U.S.

In addition, there is a potential risk of conflict and instability in the relationship between Taiwan and China. Conflict or instability could disrupt the operations of our customers and/or suppliers in both Taiwan and China. Additionally, our manufacturing operations in China could be disrupted by any conflict.

Our international operations also depend upon favorable trade relations between the U.S. and those foreign countries in which our customers, subcontractors and materials suppliers have operations. A protectionist trade environment in either the U.S. or those

Table of Contents

foreign countries in which we do business, such as a change in the current tariff structures, export compliance or other trade policies, may materially and adversely affect our ability to sell our products in foreign markets.

Item 2. - UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

The following table summarizes the repurchases of common stock during the three months ended January 2, 2016 (in millions, except number of shares, which are reflected in thousands, and per share amounts):

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares That May Yet Be Purchase Under the Plans or Programs ⁽¹⁾
October 4, 2015 to October 31, 2015	832	10.05	832	\$13.2
November 1, 2015 to December 5, 2015	399	10.99	399	\$8.8
December 6, 2015 to January 2, 2016	9	10.59	9	\$8.7
Total for three months ended January 2, 2016	1,240		1,240	

(1) On August 14, 2014, the Company's Board of Directors authorized a program to repurchase up to \$100 million of the Company's common stock on or before August 14, 2017. The Company has entered into a written trading plan under Rule 10b5-1 of the Exchange Act to facilitate repurchases under the repurchase program. The repurchase program may be suspended or discontinued at any time and is funded using the Company's available cash. Under the program, shares may be repurchased through open market and/or privately negotiated transactions at then-prevailing market prices. The timing and amount of repurchase transactions under this program will depend on market conditions as well as corporate and regulatory considerations.

Table of Contents

Item 6. - EXHIBITS

Exhibit No.	Description
3.1	The Company's Amended and Restated By-Laws, dated October 22, 2015, are incorporated herein by reference to Exhibit 3(ii) to the Company's Current Report on Form 8-K dated October 22, 2015.
10.1	Kulicke & Soffa Industries, Inc. 2009 Equity Plan Restricted Share Unit Award Agreement, is incorporated herein by reference to Exhibit 10.35 to the Company's Annual Report on Form 10-K for the year ended October 3, 2015.*
10.2	Letter Agreement between the Company and Bruno Guilmart, dated December 3, 2015.
31.1	Certification of Jonathan Chou, interim 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 Jonathan Chou, interim 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

Table of Contents

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: February 4, 2016

By: /s/ JONATHAN CHOU
Jonathan Chou
Interim Chief Executive Officer, Chief Financial
Officer

Table of Contents

EXHIBIT INDEX

Exhibit No. Description

3.1	The Company's Amended and Restated By-Laws, dated October 22, 2015, are incorporated herein by reference to Exhibit 3(ii) to the Company's Current Report on Form 8-K dated October 22, 2015.
10.1	Kulicke & Soffa Industries, Inc. 2009 Equity Plan Restricted Share Unit Award Agreement, is incorporated herein by reference to Exhibit 10.35 to the Company's Annual Report on Form 10-K for the year ended October 3, 2015.*
10.2	Letter Agreement between the Company and Bruno Guilmart, dated December 3, 2015.
31.1	Certification of Jonathan Chou, interim 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 Jonathan Chou, interim 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