

KULICKE & SOFFA INDUSTRIES INC  
Form 10-Q  
February 03, 2017  
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 December 31, 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 23-1498399  
(State or other jurisdiction of incorporation) (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 January 31, 2017, there were 70,955,637 shares of the Registrant's Common Stock, no par value, outstanding.

---

Table of Contents

KULICKE AND SOFFA INDUSTRIES, INC.

FORM 10 – Q

December 31, 2016

Index

Page  
Number

PART I - FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS (Unaudited)

Consolidated Condensed Balance Sheets as of December 31, 2016 and October 1, 2016 1

Consolidated Condensed Statements of Operations for the three months ended December 31, 2016, and January 2, 2016 2

Consolidated Condensed Statements of Comprehensive Income for the three months ended December 31, 2016 and January 2, 2016 3

Consolidated Condensed Statements of Cash Flows for the three months ended December 31, 2016 and January 2, 2016 4

Notes to Consolidated Condensed Financial Statements 5

Item 2. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS 24

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK 37

Item 4. CONTROLS AND PROCEDURES 37

PART II - OTHER INFORMATION

Item 1A. RISK FACTORS 38

Item 6. EXHIBITS 38

SIGNATURES 39

## Table of Contents

## PART I. - FINANCIAL INFORMATION

## Item 1. – FINANCIAL STATEMENTS

## KULICKE AND SOFFA INDUSTRIES, INC.

## CONSOLIDATED CONDENSED BALANCE SHEETS

(in thousands)

Unaudited

	As of	
	December 31, 2016	October 1, 2016
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$577,426	\$547,907
Accounts and other receivable, net of allowance for doubtful accounts of \$206 and \$506 respectively	118,095	130,455
Inventories, net	83,792	87,295
Prepaid expenses and other current assets	14,348	15,285
Total current assets	793,661	780,942
Property, plant and equipment, net	49,635	50,342
Goodwill	81,272	81,272
Intangible assets	49,287	50,810
Other assets	18,905	19,078
<b>TOTAL ASSETS</b>	<b>\$992,760</b>	<b>\$982,444</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$46,349	\$41,813
Accrued expenses and other current liabilities	55,865	63,954
Income taxes payable	12,996	12,830
Total current liabilities	115,210	118,597
Financing obligation	15,579	16,701
Deferred income taxes	28,434	27,697
Other liabilities	13,068	12,931
<b>TOTAL LIABILITIES</b>	<b>\$172,291</b>	<b>\$175,926</b>
Commitments and contingent liabilities (Note 13)		
<b>SHAREHOLDERS' EQUITY:</b>		
Preferred stock, without par value:		
Authorized 5,000 shares; issued - none	\$—	\$—
Common stock, no par value:		
Authorized 200,000 shares; issued 83,752 and 83,231, respectively; outstanding 70,941 and 70,420 shares, respectively	502,561	498,676
Treasury stock, at cost, 12,811 and 12,811 shares, respectively	(139,407 )	(139,407 )
Retained earnings	465,558	449,975
Accumulated other comprehensive loss	(8,243 )	(2,726 )
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>\$820,469</b>	<b>\$806,518</b>

TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY \$992,760 \$982,444

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

## Table of Contents

KULICKE AND SOFFA INDUSTRIES, INC.  
 CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS

(in thousands, except per share data)

Unaudited

	Three months ended	
	December 31, 2016	January 2, 2016
Net revenue	\$ 149,639	\$ 108,534
Cost of sales	81,321	58,113
Gross profit	68,318	50,421
Selling, general and administrative	29,532	27,932
Research and development	21,505	24,194
Operating expenses	51,037	52,126
Income / (Loss) from operations	17,281	(1,705 )
Interest income	1,172	622
Interest expense	(262 )	(273 )
Income / (Loss) from operations before income taxes	18,191	(1,356 )
Income tax expense / (benefit)	2,608	(1,265 )
Net income / (loss)	\$ 15,583	\$ (91 )
Net income per share:		
Basic	\$0.22	\$—
Diluted	\$0.22	\$—
Weighted average shares outstanding:		
Basic	70,854	70,738
Diluted	71,763	70,738

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

## Table of Contents

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

(in thousands)

Unaudited

	Three months ended	
	December 2016	January 2, 2016
Net income / (loss)	\$15,583	\$(91 )
Other comprehensive income:		
Foreign currency translation adjustment	(4,581 )	(1,130 )
Unrecognized actuarial gain, Switzerland pension plan, net of tax	127	28
	(4,454 )	(1,102 )
Derivatives designated as hedging instruments:		
Unrealized loss on derivative instruments, net of tax	(1,592 )	(187 )
Reclassification adjustment for loss on derivative instruments recognized, net of tax	529	89
Net decrease from derivatives designated as hedging instruments, net of tax	(1,063 )	(98 )
Total other comprehensive loss	(5,517 )	(1,200 )
Comprehensive income / (loss)	\$10,066	\$(1,291 )

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

## Table of Contents

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

(in thousands)

Unaudited

	Three months ended December 31 / January 2, 2016      2016	
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income / (loss)	\$15,583	\$(91 )
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	3,944	4,051
Equity-based compensation and employee benefits	3,601	62
Excess tax benefits from stock-based compensation arrangements	—	(363 )
Adjustment for doubtful accounts	(53 )	—
Adjustment for inventory valuation	1,058	1,357
Deferred income taxes	840	(1,989 )
Loss / (Gain) on disposal of property, plant and equipment	44	(37 )
Unrealized foreign currency translation	(7,020 )	(1,510 )
Changes in operating assets and liabilities, net of assets and liabilities assumed in business combinations:		
Accounts and other receivable	12,517	7
Inventory	2,339	8,077
Prepaid expenses and other current assets	1,105	(417 )
Accounts payable, accrued expenses and other current liabilities	(3,223 )	(623 )
Income taxes payable	156	(1,080 )
Other, net	(842 )	250
Net cash provided by operating activities	30,049	7,694
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of property, plant and equipment	(2,676 )	(1,727 )
Proceeds from sales of property, plant and equipment	17	115
Net cash used in investing activities	(2,659 )	(1,612 )
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Payment on debts	(142 )	(125 )
Proceeds from exercise of common stock options	284	177
Repurchase of common stock	—	(12,840 )
Excess tax benefits from stock-based compensation arrangements	—	363
Net cash provided by/ (used in) financing activities	142	(12,425 )
Effect of exchange rate changes on cash and cash equivalents	1,987	664
Changes in cash and cash equivalents	29,519	(5,679 )
Cash and cash equivalents at beginning of period	547,907	498,614
Cash and cash equivalents at end of period	\$577,426	\$492,935
<b>CASH PAID FOR:</b>		
Interest	\$262	\$273
Income taxes	\$1,594	\$1,873

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





Table of Contents

KULICKE AND SOFFA INDUSTRIES, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

Unaudited

NOTE 1: BASIS OF PRESENTATION

These consolidated condensed 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 condensed 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 condensed 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 1, 2016, filed with the Securities and Exchange Commission, which includes Consolidated Balance Sheets as of October 1, 2016 and October 3, 2015, 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 1, 2016. The results of operations for any interim period are not necessarily indicative of the results of operations for any other interim period or for a full year.

Fiscal Year

Each of the Company's first three fiscal quarters end on the Saturday that is 13 weeks after the end of the immediately preceding fiscal quarter. The fourth quarter of each fiscal year ends on the Saturday closest to September 30. Fiscal 2017 quarters end on December 31, 2016, April 1, 2017, July 1, 2017 and September 30, 2017. In fiscal years consisting of 53 weeks, the fourth quarter will consist of 14 weeks. Fiscal 2016 quarters ended on January 2, 2016, April 2, 2016, July 2, 2016 and October 1, 2016.

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, integrated 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 condensed 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 condensed 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 the Company's 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 December 31, 2016 and October 1, 2016 consisted primarily of 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 CONDENSED 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. The Company actively 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 condensed statement of operations as the impact of the hedged transaction. Derivatives that we designate as cash flow hedges are classified in the consolidated condensed 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 CONDENSED 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 December 31, 2016 and October 1, 2016, 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. 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 projections 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 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.

Table of Contents

KULICKE AND SOFFA INDUSTRIES, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

Unaudited (continued)

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; or significant changes in market capitalization. During the three months ended December 31, 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 B.V. ("Assembléon") in 2009 and 2015, respectively.

ASC No. 350, Intangibles-Goodwill and Other ("ASC 350") requires goodwill and other intangible assets with indefinite lives to be reviewed for impairment annually, or more frequently if circumstances indicate a possible impairment. 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 December 31, 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 4 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 that the Company intends to sell are carried as inventory until sold.

#### Income Taxes

In accordance with ASC No. 740, Income Taxes, deferred income taxes are determined using the liability method. The Company records a valuation allowance to reduce its deferred tax assets to the amount it expects is more likely than not to be realized. While the Company has considered future taxable income and its ongoing tax planning strategies in assessing the need for the valuation

Table of Contents

KULICKE AND SOFFA INDUSTRIES, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

Unaudited (continued)

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 is 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 is 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. Financial Accounting Standards Board (“FASB”) has issued Accounting Standard Update (“ASU”) 2015-17, Income Taxes (Topic 740), regarding 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. 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 condensed balance sheet. The prior reporting period was not retrospectively adjusted.

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 include 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 Condensed 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

Table of Contents

KULICKE AND SOFFA INDUSTRIES, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

Unaudited (continued)

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.

Recent Accounting Pronouncements

In May 2014, the FASB issued 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 August 2015, the FASB issued ASU 2015-14, Revenue from Contracts with Customers (Topic 606)- Deferral of the Effective Date, which defers the effective date of the new revenue standard by one year and permits early adoption as early as the original effective date of ASU 2014-09. Accordingly, the Company may adopt the standard in either our first quarter of 2018 or 2019. We are currently evaluating the impact of the adoption of this ASU on our financial statements.

In March 2016, the FASB issued ASU 2016-08, Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net), to clarify the implementation guidance on principal versus agent considerations in Topic 606. The amendments are intended to improve the operability and lead to more consistent application of the implementation guidance. The effective date is the same as the effective date of ASU 2014-09. ASU 2015-14 defers the effective date by one year and permits early adoption as early as the original effective date of ASU 2014-09. Accordingly, the Company may adopt the standard in either our first quarter of 2018 or 2019. We are currently evaluating the impact of the adoption of this ASU on our financial statements.

In April 2016, the FASB issued ASU 2016-10, Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing, to clarify the implementation guidance of Topic 606. The amendments do not change the guidance in Topic 606. The Company may adopt the standard in either our first quarter of 2018 or 2019. We are currently evaluating the impact of the adoption of this ASU on our financial statements.

In May 2016, the FASB issued ASU 2016-12, Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients, to clarify the guidance on assessing collectability, presenting sales taxes, measuring noncash consideration, and certain transition matters. The amendments are expected to reduce the degree of judgment necessary to comply with Topic 606. The Company may adopt the standard in either our first quarter of 2018 or 2019. We are currently evaluating the impact of the adoption of this ASU on our financial statements.

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 guidance is effective for the Company from the current reporting period and the adoption of this guidance did not have a significant impact 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 is effective for the Company from the current reporting period and the adoption of this guidance did not have a significant impact on our financial statements.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842), which requires the recognition of lease assets and lease liabilities by lessees for those lease classified as operating leases under current GAAP. This ASU will be effective for us beginning in our first quarter of 2019 and early adoption is permitted. We are currently evaluating the impact of the adoption of this ASU on our financial statements.

In March 2016, the FASB issued ASU 2016-09, Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting. This ASU identifies areas for simplification involving several aspects of accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, an option to recognize gross stock compensation expense with actual forfeitures recognized as they occur, as well as certain classifications on the statement of cash flows. This ASU will be effective for us beginning in our first quarter of 2018 and early adoption is permitted. We are currently evaluating the impact of the adoption of this ASU on our financial statements.

Table of Contents

KULICKE AND SOFFA INDUSTRIES, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

Unaudited (continued)

In June 2016, the FASB issued ASU 2016-13, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. This ASU replaces the impairment methodology in current GAAP, which delays recognition of credit losses until it is probable a loss has been incurred, with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. This ASU will be effective for us beginning in our first quarter of 2020. Early adoption is permitted beginning in our first quarter of 2019. We are currently evaluating the impact of the adoption of this ASU on our financial statements.

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments. This ASU addresses the classification of certain specific cash flow issues including debt prepayment or extinguishment costs, settlement of certain debt instruments, contingent consideration payments made after a business combination, proceeds from the settlement of certain insurance claims and distributions received from equity method investees. The ASU will be effective for us beginning in our first quarter of 2019 and early adoption is permitted. The Company is currently evaluating the effect that the updated standard will have on our financial statements.

In October 2016, the FASB issued ASU 2016-16, Accounting for Income Taxes: Intra-Entity Asset Transfers of Assets Other than Inventory. The new guidance requires the tax effects of intercompany transactions (other than transfers of inventory) to be recognized currently. The new guidance will be effective for public business entities in fiscal years beginning after December 15, 2017 (our fiscal 2019), including interim periods within those years - with an option to early adopt. The modified retrospective approach will be required for transition to the new guidance, with a cumulative-effect adjustment recorded in retained earnings as of the beginning of the period of adoption. We are currently evaluating the impact of the adoption of this ASU on our financial statements.

In November 2016, the FASB issued ASU 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash (a consensus of the FASB Emerging Issues Task Force). This update requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. This ASU will be effective for us beginning in our first quarter of 2019. Early adoption is permitted beginning in our first quarter of 2018. We are currently evaluating the impact of the adoption of this ASU on our financial statements.

Table of Contents

KULICKE AND SOFFA INDUSTRIES, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

Unaudited (continued)

## NOTE 2: RESTRUCTURING

The Company has implemented a restructuring program to streamline its international operations and functions as well as consolidating its organization structure to achieve our cost-reduction, productivity and efficiency initiatives. The accrued cost as at December 31, 2016 will be paid between fiscal 2017 and fiscal 2018.

The following table is a summary of activity related to the Company's restructuring and other charges for the three months ended December 31, 2016 and January 2, 2016:

(in thousands)	Three months ended December 31, 2016		
	Beginning of Expenses period <sup>(1)</sup>	Payments	End of period (1)
Severance and benefits	\$37	\$ —	\$ (37)
Other exit costs	6,525	(2,892)	3,633
	6,562	(2,929)	3,633
(in thousands)	Three months ended January 2, 2016		
	Beginning of Expenses period <sup>(2)</sup>	Payments	End of period (1)
Severance and benefits	\$1,538	\$ 615	\$(1,488)
			\$ 665

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

(2) Provision for severance and benefits and other exit costs are included within selling, general and administrative expenses on the Consolidated Condensed Statements of Operations.

Table of Contents

KULICKE AND SOFFA INDUSTRIES, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

Unaudited (continued)

## NOTE 3: BALANCE SHEET COMPONENTS

The following tables reflect the components of significant balance sheet accounts as of December 31, 2016 and October 1, 2016:

(in thousands)	As of	
	December 31, 2016	October 1, 2016
Inventories, net:		
Raw materials and supplies <sup>(1)</sup>	\$26,418	\$26,876
Work in process <sup>(1)</sup>	16,909	24,333
Finished goods <sup>(1)</sup>	60,770	57,166
	104,097	108,375
Inventory reserves	(20,305 )	(21,080 )
	\$83,792	\$87,295
Property, plant and equipment, net:		
Buildings and building improvements	\$34,150	\$34,472
Leasehold improvements	14,759	19,963
Data processing equipment and software <sup>(1)</sup>	33,622	32,975
Machinery, equipment, furniture and fixtures	59,858	54,730
	142,389	142,140
Accumulated depreciation <sup>(1)</sup>	(92,754 )	(91,798 )
	\$49,635	\$50,342
Accrued expenses and other current liabilities:		
Wages and benefits	\$18,044	\$24,248
Accrued customer obligations <sup>(2)</sup>	12,495	13,077
Commissions and professional fees	9,918	10,908
Deferred rent	2,868	2,920
Severance <sup>(3)</sup>	1,150	1,296
Other	11,390	11,505
	\$55,865	\$63,954

Certain balances as at October 1, 2016 relating to Inventories and Property, plant and equipment have been (1) reclassified for comparative purposes. These reclassifications have no impact to the Consolidated Condensed Balance Sheet as at October 1, 2016.

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

Includes the restructuring plan discussed in Note 2, severance payable in connection with the October 2015 (3) retirement of the Company's CEO of \$0.6 million (as of October 1, 2016: \$0.8 million), and other severance payments.

## NOTE 4: 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 business outlook process. The Company performed its annual impairment test in the fourth quarter of fiscal 2016 and concluded that no impairment charge was required. During the three months ended December 31, 2016, the Company reviewed 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.

The following table summarizes the Company's recorded goodwill as of December 31, 2016 and October 1, 2016:

13

---

Table of Contents

KULICKE AND SOFFA INDUSTRIES, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

Unaudited (continued)

(in thousands)	As of	
	December 31, 2016	October 1, 2016
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 December 31, 2016 and October 1, 2016:

(dollar amounts in thousands)	As of		Average estimated useful lives (in years)
	December 31, 2016	October 1, 2016	
Developed technology	\$74,080	\$ 74,080	7.0 to 15.0
Accumulated amortization	(38,652 )	(37,969 )	
Net developed technology	\$35,428	\$ 36,111	
Customer relationships	\$36,968	\$ 36,968	5.0 to 6.0
Accumulated amortization	(25,191 )	(24,455 )	
Net customer relationships	\$11,777	\$ 12,513	
Trade and brand names	\$7,515	\$ 7,515	7.0 to 8.0
Accumulated amortization	(5,433 )	(5,329 )	
Net trade and brand name	\$2,082	\$ 2,186	
Other intangible assets	\$2,500	\$ 2,500	1.9
Accumulated amortization	(2,500 )	(2,500 )	
Net other intangible assets	\$—	\$—	
Net intangible assets	\$49,287	\$ 50,810	

The following table reflects estimated annual amortization expense related to intangible assets as of December 31, 2016:

(in thousands)	As of December 31, 2016
Remaining fiscal 2017	\$ 4,565
Fiscal 2018	6,086
Fiscal 2019	6,086
Fiscal 2020	6,086
Fiscal 2021 and onwards	26,464
Total amortization expense	\$ 49,287

## NOTE 5: CASH, CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS

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.



Table of Contents

KULICKE AND SOFFA INDUSTRIES, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

Unaudited (continued)

Cash and cash equivalents consisted of the following as of December 31, 2016:

(in thousands)	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
Current assets:				
Cash	\$ 173,540	\$ —	—\$	—\$ 173,540
Cash equivalents:				
Money market funds	100,725	—	—	100,725
Time deposits	258,161	—	—	258,161
Commercial paper	45,000	—	—	45,000
Total cash and cash equivalents	\$ 577,426	\$ —	—\$	—\$ 577,426

Cash and cash equivalents consisted of the following as of October 1, 2016:

(in thousands)	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
Current assets:				
Cash	\$ 118,335	\$ —	—\$	—\$ 118,335
Cash equivalents:				
Money market funds	152,961	—	—	152,961
Time deposits	257,611	—	—	257,611
Commercial paper	19,000	—	—	19,000
Total cash and cash equivalents	\$ 547,907	\$ —	—\$	—\$ 547,907

**NOTE 6: 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 December 31, 2016.

**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.

**NOTE 7: 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

12 months. For these derivatives, we report the after-

15

---

Table of Contents

KULICKE AND SOFFA INDUSTRIES, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

Unaudited (continued)

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 condensed statements of operations as the impact of the hedged transaction.

The fair value of derivative instruments on our Consolidated Condensed Balance Sheet as of December 31, 2016 and October 1, 2016 was as follows:

(in thousands)	As of			
	December 31, 2016	October 1, 2016	December 31, 2016	October 1, 2016
	Notional Amount	Fair Value Liability Derivatives <sup>(1)</sup>	Notional Amount	Fair Value Liability Derivatives <sup>(1)</sup>
Derivatives designated as hedging instruments:				
Foreign exchange forward contracts <sup>(2)</sup>	\$25,276	1,525	28,997	462
Total derivatives	\$25,276	1,525	\$28,997	\$ 462

(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 Condensed 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 Condensed Statements of Comprehensive Income for the three months ended December 31, 2016 and January 2, 2016 are as follows:

(in thousands)	Three months ended	
	December 31, 2016	January 2, 2016
Foreign exchange forward contract in cash flow hedging relationships:		
Net loss recognized in OCI, net of tax <sup>(1)</sup>	\$(1,592)	\$(187 )
Net loss reclassified from accumulated OCI into income, net of tax <sup>(2)</sup>	\$(529 )	\$(89 )
Net gain recognized in income <sup>(3)</sup>	\$—	\$—

(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 8: 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. As of December 31, 2016, the financing obligation related to the Building is \$15.6 million, which approximates fair value (Level 2). 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 Contents

KULICKE AND SOFFA INDUSTRIES, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

Unaudited (continued)

## Credit Facilities and Bank Guarantees

On November 22, 2013, the Company obtained a \$5.0 million credit facility with Citibank in connection with the issuance of bank guarantees for operational purposes. As of December 31, 2016, the outstanding amount is \$3.4 million.

On March 21, 2016, the Company entered into an Uncommitted Revolving Credit Agreement with United Overseas Bank Limited, New York Agency ("UOB"), providing for a \$25 million revolving credit facility (the "2016 Credit Facility"). The 2016 Credit Facility is an unsecured revolving credit facility of \$25 million with a term of one year. The proceeds of the 2016 Credit Facility may be used for the Company's general corporate purposes. As of December 31, 2016, there was no outstanding amount under the 2016 Credit Facility.

## NOTE 9: SHAREHOLDERS' EQUITY AND EMPLOYEE BENEFIT PLANS

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

The Company has 401(k) retirement income plans (the "Plans") for eligible U.S. employees. The Plans allow for employee contributions and matching Company contributions from 4% to 8% based upon terms and conditions of the 401(k) Plans in which they participate.

The following table reflects the Company's contributions to the Plans during the three months ended December 31, 2016 and January 2, 2016:

(in thousands)	Three months ended	
	December 2016	January 2, 2016
Cash	\$ 413	\$ 393

## 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 December 31, 2016, there were no stock repurchases under the Program. Stock repurchases are recorded in the periods they were delivered and accounted for as treasury stock in the Company's Consolidated Condensed 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 Condensed Balance Sheets as of December 31, 2016 and October 1, 2016:

(in thousands)	As of	
	December 2016	October 1, 2016
(Loss) / Gain from foreign currency translation adjustments	\$(4,119)	\$ 462
Unrecognized actuarial loss Switzerland pension plan, net of tax	(2,599 )	(2,726 )



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

Unrealized loss on hedging	(1,525 )	(462 )
Accumulated other comprehensive loss	\$(8,243)	\$(2,726 )

17

---

Table of Contents

KULICKE AND SOFFA INDUSTRIES, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

Unaudited (continued)

## Equity-Based Compensation

As of December 31, 2016, the Company had seven equity-based employee compensation plans (the “Employee Plans”) and three director compensation plans (the “Director Plans”) (collectively, the “Equity Plans”). Under these Equity Plans, market-based share awards (collectively, “market-based restricted stock”), time-based share awards (collectively, “time-based restricted stock”), performance-based share awards (collectively, “performance-based restricted stock”), stock options, or common stock have been granted at 100% of the market price of the Company's common stock on the date of grant. As of December 31, 2016, the Company’s one active plan, the 2009 Equity Plan, had 2.0 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 Condensed Statements of Operations for the three months ended December 31, 2016 and January 2, 2016 was based upon awards ultimately expected to vest. In accordance with ASC No. 718, Stock Based Compensation, forfeitures have been estimated at the time of grant and were based upon historical experience. The Company reviews the forfeiture rates periodically and makes adjustments as necessary.

The following table reflects restricted stock and common stock granted during the three months ended December 31, 2016 and January 2, 2016:

(shares in thousands)	Three months ended	
	December 31, 2016	January 2, 2016
Market-based restricted stock	373	166
Time-based restricted stock	696	571
Common stock	14	—
Equity-based compensation in shares	1,083	737

The following table reflects total equity-based compensation expense, which includes restricted stock, stock options and common stock, included in the Consolidated Condensed Statements of Operations during the three months ended December 31, 2016 and January 2, 2016:

(in thousands)	Three months ended	
	December 2016	January 2016
Cost of sales	\$ 141	\$ 128
Selling, general and administrative <sup>(1)</sup>	2,734	(770 )
Research and development	727	704
Total equity-based compensation expense	\$3,602	\$ 62

Table of Contents

KULICKE AND SOFFA INDUSTRIES, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

Unaudited (continued)

(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.

The following table reflects equity-based compensation expense, by type of award, for the three months ended December 31, 2016 and January 2, 2016:

(in thousands)	Three months ended	
	December 31, 2016	January 2, 2016
Market-based restricted stock	\$933	\$(1,381)
Time-based restricted stock	2,489	1,486
Performance-based restricted stock	—	(43)
Common stock	180	—
Total equity-based compensation expense <sup>(1)</sup>	\$3,602	\$62

(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 10: 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.

The following tables reflect a reconciliation of the shares used in the basic and diluted net income per share computation for the three months ended December 31, 2016 and January 2, 2016:

(in thousands, except per share data)	Three months ended			
	December 31, 2016		January 2, 2016	
	Basic	Diluted	Basic	Diluted
<b>NUMERATOR:</b>				
Net income / (loss)	\$15,583	\$15,583	\$(91)	\$(91)
<b>DENOMINATOR:</b>				
Weighted average shares outstanding - Basic	70,854	70,854	70,738	70,738
Stock options		25		—
Time-based restricted stock		317		—
Market-based restricted stock		567		—
Weighted average shares outstanding - Diluted		71,763		70,738
<b>EPS:</b>				
Net income per share - Basic	\$0.22	\$0.22	\$—	\$—
Effect of dilutive shares		—		—
Net income per share - Diluted		\$0.22		\$—



Table of Contents

KULICKE AND SOFFA INDUSTRIES, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

Unaudited (continued)

## NOTE 11: INCOME TAXES

The following table reflects the provision for income taxes and the effective tax rate for the three months ended December 31, 2016 and January 2, 2016:

(dollar amounts in thousands)	Three months ended	
	December 31, 2016	January 2, 2016
Income (loss) from operations before income taxes	\$18,191	\$(1,356)
Income tax expense / (benefit)	2,608	(1,265 )
Net income	\$15,583	\$(91 )
Effective tax rate	14.3 %	(93.3 )%

For the three months ended December 31, 2016, the effective income tax rate differed from the federal statutory tax rate primarily due to tax benefits from profits in foreign operations subject to a lower statutory tax rate than the federal rate, tax benefits from domestic research expenditures, and the impact of tax holidays, partially offset by an increase for deferred taxes on unremitted earnings, foreign withholding taxes, and an increase in valuation allowance against certain foreign deferred tax assets.

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.

The effective tax rate for the three months ended December 31, 2016 of 14.3% reflects a year-to-date tax expense of \$2.6 million on a year-to-date income of \$18.2 million. The effective tax rate for the three months 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 tax expense for the three months ended December 31, 2016 of \$2.6 million differed from the tax benefit for the three months ended January 2, 2016 of \$(1.3) million was primarily due to higher year-to-date worldwide profit, and a one-time tax benefit from changes in law in fiscal 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 12: 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 electronic assembly 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 CONDENSED FINANCIAL STATEMENTS

Unaudited (continued)

The following table reflects operating information by segment for the three months ended December 31, 2016 and January 2, 2016:

(in thousands)	Three months ended	
	December 31, 2016	January 2, 2016
Net revenue:		
Equipment	\$132,979	\$92,974
Expendable Tools	16,660	15,560
Net revenue	149,639	108,534
Income from operations:		
Equipment	12,674	(6,426 )
Expendable Tools	4,607	4,721
Income from operations	\$17,281	\$(1,705 )

The following table reflects assets by segment as of December 31, 2016 and October 1, 2016:

(in thousands)	As of	
	December 31, 2016	October 1, 2016
Segment assets:		
Equipment	\$912,389	\$901,316
Expendable Tools	80,371	81,128
Total assets	\$992,760	\$982,444

The following tables reflect capital expenditures for the three months ended December 31, 2016 and January 2, 2016, and depreciation expense for the three months ended December 31, 2016 and January 2, 2016:

(in thousands)	Three months ended	
	December 31, 2016	January 2, 2016
Capital expenditures:		
Equipment	\$1,604	\$1,071
Expendable Tools	625	323
Capital expenditures	\$2,229	\$1,394
(in thousands)	Three months ended	
	December 31, 2016	January 2, 2016
Depreciation expense:		
Equipment	\$1,890	\$1,806
Expendable Tools	531	579
Depreciation expense	\$2,421	\$2,385

## NOTE 13: 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.

21

---

Table of Contents

KULICKE AND SOFFA INDUSTRIES, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

Unaudited (continued)

The following table reflects the reserve for warranty activity for the three months ended December 31, 2016 and January 2, 2016:

(in thousands)	Three months ended	
	December 31, 2016	January 2, 2016
Reserve for warranty, beginning of period	\$4,138	\$ 1,856
Provision for warranty	607	386
Warranty costs paid	(643 )	(625 )
Reserve for warranty, end of period	\$4,102	\$ 1,617
Other Commitments and Contingencies		

The following table reflects obligations not reflected on the Consolidated Condensed Balance Sheet as of December 31, 2016:

(in thousands)	Total	Payments due by fiscal year				
		2017	2018	2019	2020	thereafter
Inventory purchase obligation (1)	\$156,971	\$156,971	\$—	\$—	\$—	\$—
Operating lease obligations (2)	26,102	3,791	3,949	3,287	3,175	11,900
Total	\$183,073	\$160,762	\$3,949	\$3,287	\$3,175	\$11,900

(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 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. 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 December 31, 2016, we recorded a financing obligation related to the Building of \$15.6 million (see Note 8 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 December 31, 2016 and January 2, 2016:

	Three months ended	
	December 31, 2016	January 2, 2016
Samsung	10.2%	*
Haoseng Industrial Company Limited (1)	*	16.5 %

(1) Distributor of the Company's products.

\* Represented less than 10% of total net revenue

Table of Contents

KULICKE AND SOFFA INDUSTRIES, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

Unaudited (continued)

The following table reflects significant customer concentrations as a percentage of total accounts receivable as of December 31, 2016 and January 2, 2016:

	As of	
	December 31, 2016	January 2, 2016
Haoseng Industrial Company Limited (1)	13.3%	21.7%
Super Power International Ltd (1)	12.5%	*
Xinye Electronics. Co (1)	10.8%	*

(1) Distributor of the Company's products.

\* Represented less than 10% of total accounts receivable

## NOTE 14: SUBSEQUENT EVENTS

On January 11, 2017, the Company entered into an Agreement for the Purchase and Sale of Real Property (the "Agreement") with ARC KSFTWPA001, LLC, a Delaware limited liability company ("Seller"). Pursuant to the terms of the Agreement, the Company agreed to purchase certain real property located at 1005 Virginia Drive, Fort Washington, Pennsylvania 19034 (the "Property"), which the Company is currently leasing from Seller. The purchase price for the Property is \$13.0 million. The Company expects the closing under the Agreement to occur in February 2017, subject to customary closing conditions, including the termination of the existing lease and the satisfactory completion of the Company's due diligence on the title and condition of the Property.

On January 11, 2017, the Company entered into foreign exchange forward contracts with notional amount of \$15.3 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 twelve months.

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 and other new products, 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 electronic assembly 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 1, 2016 (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 Condensed 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 statement. 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. ("We", 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, integrated device manufacturers ("IDMs"), 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 as a leader in the semiconductor assembly technology. We also remain focused on our cost structure through continuous improvement and optimization of operations. Cost reduction efforts are an important part of our normal ongoing operations and are intended to generate savings without compromising overall product quality and service levels.

Business Environment

The semiconductor business environment is highly volatile and is 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 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

## Table of Contents

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 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 December 31, 2016, our total cash and cash equivalents were \$577.4 million, a \$29.5 million increase from the prior fiscal year end. We believe this strong cash position will allow us to continue to invest in product development and 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 December 31, 2016, there were no stock repurchases under the Program. As of December 31, 2016, our remaining stock repurchase authorization under the Program was approximately \$7.0 million.

#### Technology Leadership

We compete largely by offering our customers advanced equipment and expendable tools available for the interconnect processes. 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 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 large bondable area ("LA" and

“ELA”) configured machines. Both LA and ELA option are now available on all of our Power Series<sup>PS</sup> models and allow our customers to gain added efficiencies and to reduce the cost of packaging.

We optimize our bonder platforms to deliver variants of our products to serve emerging high-growth markets. For example, we have developed extensions of our main ball bonding platforms (IConn<sup>PS</sup> MEM PLUS) to address opportunities in memory assembly, in particular for NAND Flash storage.

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<sup>PS</sup> improve the processing of



Table of Contents

high-density power packages, due to an expanded bondable area, wider leadframe capability, indexing accuracy and teach mode. 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 as it increases 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 high 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.

We have also broadened our advanced packaging solutions for mass reflow 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”). These solutions enable us to diversify our business while further expanding market reach into the automotive, LED lighting, medical and industrial segments with electronic assembly 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

The Company operates two segments: Equipment and Expendable Tools. The following tables reflect net revenue by business segment for the three months ended December 31, 2016 and January 2, 2016:

	Three months ended			
	December 31, 2016		January 2, 2016	
(dollar amounts in thousands)	Net revenues	% of total net revenue	Net revenues	% of total net revenue
Equipment	\$132,979	88.9 %	\$92,974	85.7 %
Expendable Tools	16,660	11.1 %	15,560	14.3 %
	\$149,639	100.0 %	\$108,534	100.0 %

## Equipment Segment

In our Equipment segment, we manufacture and sell a line of ball bonders, wedge bonders, advanced packaging and electronic assembly solutions that are sold to semiconductor device manufacturers, IDMs, OSATs, other electronics manufacturers and automotive electronics suppliers.

## Table of Contents

Our principal Equipment segment products include:

Business Line	Product Name (1)	Typical Served Market
Ball bonders	IConn <sup>PS</sup> PLUS series (2) (3) (4)	Advanced and ultra fine pitch applications
	IConn <sup>PS</sup> ProCu PLUS series (2) (3) (4)	High-end copper wire applications demanding advanced process capability and high productivity
	IConn <sup>PS</sup> MEM PLUS series (2) (3) (4)	Memory applications
	ConnX <sup>PS</sup> PLUS series (2) (3) (4)	Bonder for low-to-medium pin count applications
	ConnX <sup>PS</sup> LED PLUS	LED applications
Wedge bonders	3600PLUS	Power hybrid and automotive modules using either heavy aluminum wire or PowerRibbon®
	3700PLUS	Hybrid and automotive modules using thin aluminum wire
	PowerFusion <sup>PS</sup> TL	Power semiconductors using either aluminum wire or PowerRibbon®
	PowerFusion <sup>PS</sup> HL	Smaller power packages using either aluminum wire or PowerRibbon®
	Asterion <sup>TM</sup>	Power hybrid and automotive modules with extended area using heavy and thin aluminum
	Asterion <sup>TM</sup> EV	Extended area for battery bonding and dual lane hybrid module bonding
Advanced Packaging	AT Premier PLUS	Advanced wafer level bonding application
	APAMA C2S	Thermo-compression for chip-to-substrate, chip-to-chip and high accuracy flip chip ("HA FC") bonding applications
	APAMA C2W	Thermo-compression for chip-to-wafer, HA FC and high density fan-out wafer level packaging ("HD FOWLP") bonding applications
	Hybrid Series	Advanced packages assembly applications requiring high throughput such as flip chip, WLP, FOWLP, embedded die, SiP, package-on-package ("POP"), and modules

(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
Electronics Assembly	iX Series	Advanced Surface Mount Technology ("SMT") applications requiring extremely high output of passive and active components
	iFlex Series	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 portfolio of ball bonding products includes:

• The IConn<sup>PS</sup> PLUS series: high-performance ball bonders which can be configured for either gold or copper wire.  
 • The IConn<sup>PS</sup> ProCu PLUS series: high-performance copper wire ball bonders for advanced wafer nodes at 28 nanometer and below.

• The IConn<sup>PS</sup> MEM PLUS series: ball bonders designed for the assembly of stacked memory devices.

• The ConnX<sup>PS</sup> PLUS series: cost-performance ball bonders which can be configured for either gold or copper wire.

• The ConnX<sup>PS</sup> LED PLUS: ball bonders targeted specifically at the fast growing LED market.

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 design and manufacture 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, our wedge bonder products can be used in the high reliability interconnections of rechargeable batteries in hybrid and electric automotive applications.

Our portfolio of wedge bonding products includes:

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

• The 3700PLUS: wire bonders designed for hybrid and automotive modules using thin aluminum wire.

• The PowerFusion<sup>PS</sup> Semiconductor Wedge Bonders - Configurable in single, dual and multi-head configurations using aluminum wire and PowerRibbon<sup>TM</sup>:

The PowerFusion<sup>PS</sup> TL: designed for single row leadframe and high volume power semiconductor applications.

The PowerFusion<sup>PS</sup> HL and PowerFusion<sup>PS</sup> HLx: designed for advanced power semiconductor applications.

The Asterion<sup>TM</sup> and Asterion<sup>TM</sup> EV: latest generation hybrid wedge bonder designed for larger area, higher speed and accuracy wedge bonders for power modules, automotive packages, battery applications and other aluminum 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<sup>®</sup> process. Aluminum ribbon offers device makers performance advantages over traditional round wire and is increasingly used for high current packages and automotive applications. Our PowerFusion<sup>PS</sup> series are driven by new powerful direct-drive motion systems and expanded pattern recognition capabilities. PowerFusion<sup>PS</sup> series improve the processing of high-density power packages, due to an expanded bondable area, wider leadframe capability, indexing accuracy and teach mode.



## Table of Contents

### Advanced Packaging

Our AT Premier PLUS 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 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 ("TCB") applications. It delivers die-stacking solutions for 2.5D and 3D or through silicon via ("TSV") ICs.

Our APAMA Chip-to-Wafer ("C2W") bonder 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 an 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.

Our Hybrid series broadens our advanced packaging product offering with solutions for flip chip, WLP, FOWLP, POP, embedded die, SiP and modules markets.

### Electronic Assembly

Our iX and iFlex series machines enable us to diversify our business with SMT placement technologies, thereby expanding market reach into the automotive, LED lighting, medical and industrial segments with Electronic Assembly 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.

• **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 heavy wire wedge bonders. Wedge tools are used for both wire and ribbon applications.

## Table of Contents

## RESULTS OF OPERATIONS

The following tables reflect our income from operations for the three months ended December 31, 2016 and January 2, 2016:

(dollar amounts in thousands)	Three months ended		\$ Change	% Change	
	December 2016	January 2, 2016			
Net revenue	\$149,639	\$108,534	\$41,105	37.9	%
Cost of sales	81,321	58,113	23,208	39.9	%
Gross profit	68,318	50,421	17,897	35.5	%
Selling, general and administrative	29,532	27,932	1,600	5.7	%
Research and development	21,505	24,194	(2,689)	(11.1)	%
Operating expenses	51,037	52,126	(1,089)	(2.1)	%
Income from operations	\$17,281	\$(1,705)	\$18,986	1,113.5	%

Our net revenues for the three months ended December 31, 2016 increased as compared to our net revenues for the three months ended January 2, 2016. The increase in net revenue was primarily due to higher volume as a result of higher demand from our customers, particularly in our equipment segment. The higher demand was primarily driven by our memory, LED, power semiconductor discrete packages and hybrid packages customers. The higher demand is primarily due to growing market demand in consumer, enterprise, automotive and industrial applications.

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 92.9% and 88.4% of our net revenue for the three months ended December 31, 2016 and January 2, 2016, respectively, was for shipments to customer locations 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 41.4% and 39.5% of our net revenue for the three months ended December 31, 2016 and January 2, 2016 was for shipments to customers located in China.

The following tables reflect net revenue by business segment for the three months ended December 31, 2016 and January 2, 2016:

(dollar amounts in thousands)	Three months ended		\$ Change	% Change	
	December 2016	January 2, 2016			
Equipment	\$132,979	\$92,974	\$40,005	43.0	%
Expendable Tools	16,660	15,560	1,100	7.1	%
Total net revenue	\$149,639	\$108,534	\$41,105	37.9	%

## Equipment

The following table reflects the components of Equipment net revenue change between the three months ended December 31, 2016 and January 2, 2016:

(in thousands)	December 31, 2016 vs. January 2, 2016		\$ Change
	Price	Volume	
Equipment	\$(794)	\$40,799	\$40,005

For the three months ended December 31, 2016, the higher Equipment net revenue as compared to prior year period was primarily due to the higher volume driven by the higher demand from our memory, LED, power semiconductor discrete packages and hybrid packages customers. The higher demand is primarily due to growing market demand in consumer, enterprise, automotive and industrial applications.

## Expendable Tools



The following table reflects the components of Expendable Tools net revenue change between the three months ended December 31, 2016 and January 2, 2016:

31

---

## Table of Contents

December 31, 2016 vs.  
January 2, 2016  
Three months ended

(in thousands) Price Volume \$  
Change  
Expendable Tools \$(1,502) \$2,602 \$1,100

For the three months ended December 31, 2016, the higher Expendable Tools net revenue as compared to the prior year period was primarily due to higher volume and offset by price reductions.

## Gross Profit

The following tables reflect gross profit by business segment for the three months ended December 31, 2016 and January 2, 2016:

(dollar amounts in thousands)	Three months ended			
	December 2016	January 2, 2016	\$ Change	% Change
Equipment	\$59,136	\$41,393	\$17,743	42.9 %
Expendable Tools	9,182	9,028	154	1.7 %
Total gross profit	\$68,318	\$50,421	\$17,897	35.5 %

The following tables reflect gross profit as a percentage of net revenue by business segment for the three months ended December 31, 2016 and January 2, 2016:

	Three months ended			Basis Point Change
	December 2016	January 2, 2016	Change	
Equipment	44.5 %	44.5 %	—	
Expendable Tools	55.1 %	58.0 %	(290 )	
Total gross margin	45.7 %	46.5 %	(80 )	

## Equipment

The following table reflects the components of Equipment gross profit change between the three months ended December 31, 2016 and January 2, 2016:

December 31, 2016 vs. January 2, 2016

(in thousands)	Three months ended			\$ Change
	Price	Cost	Volume	
Equipment	\$(794)	\$1,865	\$16,672	\$17,743

For the three months ended December 31, 2016, the higher Equipment gross profit as compared to the prior year period was primarily due to the higher volume of sales and lower cost of production. The higher volume was driven by the higher demand from our memory, LED, power semiconductor discrete packages and hybrid packages customers. The higher demand is primarily due to growing market demand in consumer, enterprise, automotive and industrial applications. The lower cost was primarily due to better absorption from higher manufacturing volume.

## Expendable Tools

The following table reflects the components of Expendable Tools gross profit change between the three months ended December 31, 2016 and January 2, 2016:

December 31, 2016 vs. January 2, 2016

(in thousands)	Three months ended		
	Price	Cost	Volume

\$  
Change

Expendable Tools \$(1,502) \$47 \$1,609 \$154

For the three months ended December 31, 2016, the higher Expendable Tools gross profit as compared to the prior year period was primarily due to higher volume of sales and lower cost of production. This was partially offset by the price reduction in the expendable tools business.

## Table of Contents

## Operating Expenses

The following tables reflect operating expenses as a percentage of net revenue for the three months ended December 31, 2016 and January 2, 2016

	Three months ended		Basis point change
	December 31, 2016	January 2, 2016	
Selling, general & administrative	19.7%	25.7%	(600 )
Research & development	14.4%	22.3%	(790 )
Total	34.1%	48.0%	(1,390)

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

For the three months ended December 31, 2016, higher SG&A as compared to prior year period was primarily due to a \$3.1 million higher accrual in incentive compensation as a result of better current fiscal quarter performance and a \$1.1 million increase in executive staff costs. These were partially offset by \$1.8 million net favorable variance in foreign exchange due to strengthening of the US dollar against foreign currencies and \$0.8 million of insurance claims.

## Research and Development (“R&amp;D”)

For the three months ended December 31, 2016, lower R&D expenses as compared to prior year period was primarily due to lower investment in the development of Advanced Packaging products.

## Income from Operations

For the three months ended December 31, 2016, total income from operations was higher by \$19.0 million as compared to the three months ended January 2, 2016. This was primarily due to increased revenues and lower operating costs as explained above.

## Interest Income and Expense

The following tables reflect interest income and interest expense for the three months ended December 31, 2016 and January 2, 2016:

(dollar amounts in thousands)	Three months ended		\$ Change	% Change
	December 31, 2016	January 2, 2016		
Interest income	\$1,172	\$ 622	\$ 550	88.4 %
Interest expense	\$(262 )	\$( 273 )	\$ 11	(4.0 )%

For the three months ended December 31, 2016, interest income was higher as compared to the three months ended January 2, 2016. This was primarily due to higher prevailing interest rates and a larger cash and cash equivalents balance.

Interest expense for the three months ended December 31, 2016 and 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 8 of Item 1).

## Provision for Income Taxes

The following table reflects the provision for income taxes and the effective tax rate for the three months ended December 31, 2016 and January 2, 2016:

(dollar amounts in thousands)	Three months ended	
	December 31, 2016	January 2, 2016
Income from operations before income taxes	\$18,191	\$(1,356)
Income tax expense / (benefit)	2,608	(1,265 )
Net income	\$15,583	\$(91 )
Effective tax rate	14.3 %	(93.3 )%

Please refer to Note 11 of Item 1 for discussion on the provision for income taxes and the effective tax rate for the three months ended December 31, 2016 and January 2, 2016.

## Table of Contents

## LIQUIDITY AND CAPITAL RESOURCES

The following table reflects total cash, cash equivalents and investments as of December 31, 2016 and October 1, 2016:

(dollar amounts in thousands)	As of		Change
	December 31, 2016	October 1, 2016	
Cash and cash equivalents	\$577,426	\$547,907	\$29,519
Percentage of total assets	58.2	% 55.8	%

The following table reflects summary Consolidated Condensed Statement of Cash Flow information for the three months ended December 31, 2016 and January 2, 2016:

(in thousands)	Three months ended	
	December 31, 2016	January 2, 2016
Net cash provided by operating activities	\$30,049	\$7,694
Net cash used in investing activities	(2,659 )	(1,612 )
Net cash provided by / (used in) financing activities	142	(12,425 )
Effect of exchange rate changes on cash and cash equivalents	1,987	664
Changes in cash and cash equivalents	\$29,519	\$(5,679 )
Cash and cash equivalents, beginning of period	547,907	498,614
Cash and cash equivalents, end of period	\$577,426	\$492,935

Three months ended December 31, 2016  
 Net cash provided by operating activities was primarily due to net income of \$15.6 million and non-cash adjustments of \$2.4 million and working capital changes of \$12.1 million. The change in working capital was primarily driven by a decrease in accounts and notes receivable of \$12.5 million, a decrease in inventories of \$2.3 million, a decrease in prepaid expenses and other current assets of \$1.1 million. This was partially offset by corresponding decrease in accounts payable, accrued expenses and other current liabilities of \$3.2 million and net other liabilities of \$0.8 million. The decrease in accounts receivables and inventories was mainly due to improved working capital management where days sales outstanding and days inventory outstanding in the first quarter of fiscal 2017 were lower as compared to the fourth quarter of fiscal 2016 due to higher collection and lower inventory on hand in current quarter respectively. The lower accounts payable, accrued expenses and other current liabilities was due to lower accruals and partially offset by higher days payable outstanding.

Net cash used in investing activities was primarily due to capital expenditures of \$2.7 million.

Three months ended January 2, 2016

Net cash provided by operating activities was primarily due to 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.



## Table of Contents

### Fiscal 2017 Liquidity and Capital Resource Outlook

We expect our fiscal 2017 capital expenditures to be approximately \$29.0 million. Expenditures are anticipated to be primarily used for R&D projects, enhancements to our manufacturing operations in Asia, improvements to our information technology infrastructure and leasehold improvements for our facilities.

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.

As of December 31, 2016 and October 1, 2016, approximately \$512.4 million and \$479.7 million of cash, cash equivalents and short-term investments were held by the Company's foreign subsidiaries, respectively. The cash amounts not available for use in the U.S. without incurring additional U.S. income tax as of December 31, 2016 and October 1, 2016, were approximately \$454.5 million and \$428.4 million, respectively.

The Company's international operations and capital requirements are funded primarily by cash generated by foreign operating activities and cash held by foreign subsidiaries. Most of the Company's operations and liquidity needs are outside the U.S. The Company's U.S. operations and capital requirements are funded primarily by cash generated from U.S. operating activities. In addition, the Company has entered into an Uncommitted Revolving Credit Agreement with United Overseas Bank Limited, New York Agency ("UOB"), providing for a \$25 million revolving credit facility (the "2016 Credit Facility"). The 2016 Credit Facility is an unsecured revolving credit facility of \$25 million and matures in March 2017. The proceeds of the 2016 Credit Facility may be used for the Company's general corporate purposes and provide additional liquidity for any U.S. needs. We believe our U.S. sources of cash and liquidity are sufficient to meet our business needs in the U.S. for the foreseeable future including funding of U.S. operations, capital expenditures and the share repurchase program as approved by the Board of Directors. We currently do not expect that we will need to repatriate the funds we have designated as indefinitely reinvested outside the U.S. Should the Company's U.S. cash needs exceed its funds generated by U.S. operations due to changing business conditions or transactions outside the ordinary course, such as acquisitions of large capital assets, businesses or any other capital appropriation in the U.S., the Company may require additional financing in the U.S. In this event, the Company could borrow under the 2016 Credit Facility, seek other U.S. borrowing alternatives, repatriate funds held by foreign subsidiaries that have already been subject to U.S. taxation without incurring additional income tax expense (i.e. earnings previously subject to U.S. income tax or U.S. deferred taxes already accrued on those respective earnings), or a combination thereof.

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 depend on market conditions as well as corporate and regulatory considerations.

During the three months ended December 31, 2016, there were no stock repurchases. As of December 31, 2016, our remaining stock repurchase authorization under the repurchase program was approximately \$7.0 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 Condensed Balance Sheets and Statements of Operations. These



obligations and commitments, while entered into in the normal course of business, may have a material impact on our liquidity. Certain of the following commitments as of December 31, 2016 are appropriately not included in the Consolidated Condensed 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 December 31, 2016:

35

---

## Table of Contents

(in thousands)	Total	Payments due by fiscal period			
		Less than 1 year	1 year	years 3 - 5 years	More than 5 years
Current and long-term liabilities:					
Pension plan obligations	\$3,246	\$—	\$—	\$—	\$ 3,246
Severance (1)	2,757	—	715	—	2,042
Operating lease retirement obligations (2)	1,689	66	382	—	1,241
Long-term income taxes payable	4,725	—	—	—	4,725
Total Obligations and Contingent Payments reflected on the Consolidated Condensed Financial Statements	\$12,417	\$66	\$ 1,097	\$—	\$ 11,254
Contractual Obligations:					
Inventory purchase obligations (3)	\$156,971	\$156,971	\$—	\$—	\$—
Operating lease obligations (4)	26,102	4,939	6,885	5,737	8,541
Total Obligations and Contingent Payments not reflected on the Consolidated Condensed Financial Statements	\$183,073	\$161,910	\$ 6,885	\$ 5,737	\$ 8,541

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

(2) Asset retirement obligations are associated with commitments to return the property to its original condition upon lease termination at various sites.

(3) 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.

(4) We have minimum rental commitments under various leases (excluding taxes, insurance, maintenance and repairs, which are also paid by us) primarily for various facility and equipment leases, which expire periodically through 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 Condensed Balance Sheet, and the corresponding financing obligation was reclassified to long-term liability. As of December 31, 2016, we recorded a financing obligation of \$15.6 million. The financing obligation is not reflected in the table above.

#### Off-Balance Sheet Arrangements

##### Credit facilities

On November 22, 2013, the Company obtained a \$5.0 million credit facility with Citibank in connection with the issuance of a bank guarantee for operational purposes. As of December 31, 2016, the outstanding amount is \$3.4 million.

On March 21, 2016, the Company entered into an Uncommitted Revolving Credit Agreement with United Overseas Bank Limited, New York Agency ("UOB"), providing for a \$25 million revolving credit facility (the "2016 Credit Facility"). The 2016 Credit Facility is an unsecured revolving credit facility of \$25 million with a term of one year. The proceeds of the 2016 Credit Facility may be used for the Company's general corporate purposes. As of December 31, 2016, there was no outstanding amount under the 2016 Credit Facility and we were in compliance with the covenants described in the 2016 Credit Facility.

As of December 31, 2016, we did not have any other off-balance sheet arrangements, such as contingent interests or obligations associated with variable interest entities.



Table of Contents

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 December 31, 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 December 31, 2016, a 10.0% fluctuation could impact our financial position, results of operations or cash flows by \$2.0 to \$3.0 million. Our attempts to hedge against these risks may not be successful and may result in a material adverse impact on our financial results and cash flow.

We enter into 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 twelve months. We have foreign exchange forward contracts with a notional amount of \$25.3 million outstanding as of December 31, 2016. On January 11, 2017, the Company entered into foreign exchange forward contracts with notional amount of \$15.3 million.

Item 4. - CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of December 31, 2016. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that, as of December 31, 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 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 Chief Executive Officer and Chief Financial Officer, of our internal control over financial reporting, no changes during the three months ended December 31, 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

Certain Risks Related to Our Business

There have been no material changes from the risk factors discussed in Part I, Item 1A, "Risk Factors", of our 2016 Annual Report on Form 10-K.

Item 6. - EXHIBITS

Exhibit No. Description

10.1	Offer Letter between the Company and Fusen Chen dated October 3, 2016, incorporated herein by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed on October 3, 2016.*
10.2	Agreement For Purchase and Sale of Real Property, dated January 11, 2017, between the Company and ARC KSFTWPA001, LLC.
31.1	Certification of Fusen Chen, 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 Fusen Chen, 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 3, 2017 By: /s/ JONATHAN CHOU

Jonathan Chou

Executive Vice President and Chief Financial Officer

Table of Contents

EXHIBIT INDEX

Exhibit No.	Description
10.1	Offer Letter between the Company and Fusen Chen dated October 3, 2016, incorporated herein by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed on October 3, 2016.*
10.2	Agreement For Purchase and Sale of Real Property, dated January 11, 2017, between the Company and ARC KSFTWPA001, LLC.
31.1	Certification of Fusen Chen, 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 Fusen Chen, 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.