KULICKE & SOFFA INDUSTRIES INC
Form 10-Q
February 03, 2012

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

# FORM 10-Q

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

For the quarterly period ended December 31, 2011

OR

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

For the transition period from to .

Commission File No. 0-121

KULICKE AND SOFFA INDUSTRIES, INC.
(Exact name of registrant as specified in its charter)

| | |
|---|---|
| PENNSYLVANIA | 23-1498399 |
| (State or other jurisdiction of incorporation) | (IRS Employer Identification No.) |

6 Serangoon North, Avenue 5, #03-16, Singapore 554910
(Address of principal executive offices and Zip Code)

(215) 784-6000
(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 x 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 x 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 x | 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 o  No x

As of January 27, 2012, there were 73,721,402 shares of the Registrant's Common Stock, no par value, outstanding.

KULICKE AND SOFFA INDUSTRIES, INC.

FORM 10 – Q

December 31, 2011

Index

PART I. - FINANCIAL INFORMATION
Item 1. – FINANCIAL STATEMENTS

KULICKE AND SOFFA INDUSTRIES, INC.
CONSOLIDATED BALANCE SHEETS
(in thousands)
Unaudited

| | As of | |
|---|---|---|
| | December 31, 2010 | October 1, 2011 |
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | $ 403,761 | $ 378,188 |
| Short-term investments | - | 6,364 |
| Accounts and notes receivable, net of allowance for doubtful accounts of $2,338 and $2,194, respectively | 110,030 | 138,649 |
| Inventories, net | 59,706 | 73,092 |
| Prepaid expenses and other current assets | 20,112 | 21,897 |
| Deferred income taxes | 1,657 | 1,651 |
| Total current assets | 595,266 | 619,841 |
| | | |
| Property, plant and equipment, net | 26,059 | 26,501 |
| Goodwill | 41,546 | 41,546 |
| Intangible assets | 27,270 | 29,565 |
| Other assets | 11,371 | 10,938 |
| TOTAL ASSETS | $ 701,512 | $ 728,391 |
| | | |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Current portion of long-term debt | $ 106,987 | $ 105,224 |
| Accounts payable | 19,261 | 36,321 |
| Accrued expenses and other current liabilities | 35,397 | 43,528 |
| Earnout agreement payable (Note 4) | - | 14,848 |
| Income taxes payable | 15,040 | 14,261 |
| Total current liabilities | 176,685 | 214,182 |
| | | |
| Deferred income taxes | 31,998 | 32,065 |
| Other liabilities | 10,386 | 12,267 |
| TOTAL LIABILITIES | 219,069 | 258,514 |
| | | |
| Commitments and contingent liabilities (Note 10) | | |
| | | |
| SHAREHOLDERS' EQUITY: | | |
| Preferred stock, without par value: | | |
| Authorized 5,000 shares; issued - none | - | - |
| Common stock, no par value: | | |
| Authorized 200,000 shares; issued 78,638 and 77,733, respectively; outstanding 73,684 and 72,779 shares, respectively | 445,626 | 441,749 |
| Treasury stock, at cost, 4,954 shares | (46,356) | (46,356) |

| | | |
|---|---|---|
| Accumulated income | 80,447 | 71,940 |
| Accumulated other comprehensive income | 2,726 | 2,544 |
| TOTAL SHAREHOLDERS' EQUITY | 482,443 | 469,877 |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | $701,512 | $ 728,391 |

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

3

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

| | Three Months Ended | |
|---|---|---|
| | December 31, 2011 | January 1, 2011 |
| Net revenue | $ 120,024 | $ 148,863 |
| Cost of sales | 64,748 | 76,751 |
| Gross profit | 55,276 | 72,112 |
| Selling, general and administrative | 28,752 | 34,850 |
| Research and development | 14,148 | 15,195 |
| Operating expenses | 42,900 | 50,045 |
| Income from operations | 12,376 | 22,067 |
| Interest income | 260 | 105 |
| Interest expense | (2,152) | (2,014) |
| Income from operations before income taxes | 10,484 | 20,158 |
| Provision for income taxes | 1,977 | 5,059 |
| Net income | $ 8,507 | $ 15,099 |
| Net income per share: | | |
| Basic | $ 0.12 | $ 0.21 |
| Diluted | $ 0.11 | $ 0.21 |
| Weighted average shares outstanding: | | |
| Basic | 73,540 | 70,881 |
| Diluted | 74,628 | 71,706 |

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

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

| | Three months ended | |
|---|---|---|
| | December 31, 2011 | January 1, 2011 |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net income | $ 8,507 | $ 15,099 |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: | | |
| Depreciation and amortization | 4,258 | 4,407 |
| Amortization of debt discount and debt issuance costs | 1,910 | 1,772 |
| Equity-based compensation and employee benefits | 2,099 | 1,566 |
| Provision for doubtful accounts | 145 | 282 |
| Provision for inventory valuation | 1,340 | 1,325 |
| Deferred taxes | 207 | 2,425 |
| Switzerland pension plan curtailment | (1,820) | - |
| Changes in operating assets and liabilities, net of businesses acquired or sold: | | |
| Accounts and notes receivable | 28,406 | 34,120 |
| Inventory | 11,996 | (2,232) |
| Prepaid expenses and other current assets | 1,625 | 2,707 |
| Accounts payable, accrued expenses and other current liabilities | (24,746) | (40,749) |
| Income taxes payable | 797 | 2,636 |
| Other, net | (400) | 1,952 |
| Net cash provided by continuing operations | 34,324 | 25,310 |
| Net cash used in discontinued operations | (486) | (524) |
| Net cash provided by operating activities | 33,838 | 24,786 |
| | | |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Purchases of property, plant and equipment | (1,498) | (2,705) |
| Sales (purchases) of investments classified as available-for-sale | 6,364 | (3,180) |
| Purchase of Orthodyne (Note 4) | (14,848) | - |
| Changes in restricted cash, net | - | 237 |
| Net cash used in investing activities | (9,982) | (5,648) |
| | | |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Proceeds from exercise of common stock options | 1,576 | 125 |
| Net cash provided by financing activities | 1,576 | 125 |
| Effect of exchange rate changes on cash and cash equivalents | 141 | 176 |
| Changes in cash and cash equivalents | 25,573 | 19,439 |
| Cash and cash equivalents at beginning of period | 378,188 | 178,112 |
| Cash and cash equivalents at end of period | $ 403,761 | $ 197,551 |
| | | |
| CASH PAID FOR: | | |
| Interest | $ 481 | $ 481 |
| Income taxes | $ 1,445 | $ 634 |

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

KULICKE AND SOFFA INDUSTRIES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Unaudited

NOTE 1: BASIS OF PRESENTATION

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

The interim consolidated financial statements are unaudited and, in management's opinion, include all adjustments (consisting only of normal and recurring adjustments) necessary for a fair presentation of results for these interim periods. The interim consolidated financial statements do not include all of the information and footnote disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles ("GAAP") and should be read in conjunction with the consolidated financial statements and notes thereto included in the Annual Report on Form 10-K for the year ended October 1, 2011, filed with the Securities and Exchange Commission, which includes Consolidated Balance Sheets as of October 1, 2011 and October 2, 2010, and the related Consolidated Statements of Operations, Cash Flows, and Changes in Shareholders' Equity for each of the years in the three-year period ended October 1, 2011. 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.

Each of the Company's first three fiscal quarters end on the Saturday that is 13 weeks after the end of the immediately preceding fiscal quarter. The fourth quarter of each fiscal year ends on the Saturday closest to September 30th. Fiscal 2012 quarters end on December 31, 2011, March 31, 2012, June 30, 2012 and September 29, 2012. Fiscal 2011 quarters ended on January 1, 2011, April 2, 2011, July 2, 2011 and October 1, 2011. In fiscal years consisting of 53 weeks, the fourth quarter will consist of 14 weeks.

Nature of Business

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

Use of Estimates

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

Vulnerability to Certain Concentrations

Financial instruments which may subject the Company to concentrations of credit risk as of December 31, 2011 and October 1, 2011 consisted primarily of short-term investments and trade receivables. The Company manages credit risk associated with investments by investing its excess cash in highly rated debt instruments of the U.S. Government and its agencies, financial institutions, and corporations. The Company has established investment guidelines relative to diversification and maturities designed to maintain safety and liquidity. These guidelines are periodically reviewed and modified as appropriate. The Company does not have any exposure to sub-prime financial instruments or auction rate securities.

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

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

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

Foreign Currency Translation

The majority of the Company's business is transacted in U.S. dollars; however, the functional currencies of some of the Company's subsidiaries are their local currencies. In accordance with Accounting Standards Codification ("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.

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 collectibility of certain receivables. If global economic conditions deteriorate or political conditions were to change in some of the countries where the Company does business, it could have a significant impact on the results of operations, and the

Company's ability to realize the full value of its accounts receivable.

Inventories

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

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 collectibility is reasonably assured, and equipment installation obligations have been completed and customer acceptance, when applicable, has been received or otherwise released from installation or customer acceptance obligations. If terms of the sale provide for a customer acceptance period, revenue is recognized upon the expiration of the acceptance period or customer acceptance, whichever occurs first. The Company's standard terms are Ex Works (the Company's factory), with title transferring to its customer at the Company's loading dock or upon embarkation. The Company has a small percentage of sales with other terms, and revenue is recognized in accordance with the terms of the related customer purchase order. Revenue related to services is recognized upon performance of the services requested by a customer order. Revenue for extended maintenance service contracts with a term more than one month is recognized on a prorated straight-line basis over the term of the contract.

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

Income Taxes

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

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

NOTE 2: RESTRUCTURING

During fiscal 2010, the Company committed to a plan to reduce its Irvine, California workforce by approximately 60 employees over a period of approximately 26 months. As part of this workforce reduction plan, substantially all of the Company's California-based wedge bonder manufacturing, as well as certain administrative functions, have been transferred to the Company's manufacturing facilities in Kuala Lumpur, Malaysia and Singapore. The Company anticipates cash payments for the California-based wedge bonder transfer to Asia to be substantially complete by the end of fiscal 2012. In addition, the Company has consolidated certain of its other U.S.-based operations to Asia.

The following table reflects severance activity during the three months ended December 31, 2011 and January 1, 2011:

| | Three months ended | |
|---|---|---|
| (in thousands) | December 31, 2011 | January 1, 2011 |
| Accrual for estimated severance and benefits, beginning of period | $ 1,834 | $ 2,395 |
| Provision for estimated severance and benefits: Equipment segment (1) | - | 1,144 |
| Provision for estimated severance and benefits: Expendable Tools segment (1) | 4 | 324 |
| Payment of severance and benefits | (378 ) | (390 ) |
| Accrual for estimated severance and benefits, end of period (2) | $ 1,460 | $ 3,473 |

(1) Provision for severance and benefits is the total amount expected to be incurred and is included within selling, general and administrative expenses on the Consolidated Statements of Operations.
(2) Included within accrued expenses and other current liabilities, both periods, and other liabilities as of January 1, 2011, on the Consolidated Balance Sheets.

For the three months ended December 31, 2011 and January 1, 2011, in addition to these restructuring amounts, the Company had other severance obligations included within accrued expenses and other current liabilities and other liabilities on the Consolidated Balance Sheets.

NOTE 3: BALANCE SHEET COMPONENTS

The following tables reflect the components of significant balance sheet accounts as of December 31, 2011 and October 1, 2011:

| | As of | |
|---|---|---|
| (in thousands) | December 31, 2011 | October 1, 2011 |
| Short term investments, available-for-sale: | | |
| Deposits maturing within one year (1) | $ - | $ 6,364 |
| | $ - | $ 6,364 |
| | | |
| Inventories, net: | | |
| Raw materials and supplies | $ 42,694 | $ 45,883 |
| Work in process | 18,192 | 26,237 |
| Finished goods | 14,628 | 16,071 |
| | 75,514 | 88,191 |
| Inventory reserves | (15,808) | (15,099) |
| | $ 59,706 | $ 73,092 |
| | | |
| Property, plant and equipment, net: | | |
| Land (2) | $ 2,086 | $ 2,086 |
| Buildings and building improvements (2) | 5,026 | 5,026 |
| Leasehold improvements | 15,624 | 15,389 |
| Data processing equipment and software | 23,015 | 22,804 |
| Machinery, equipment, furniture and fixtures | 39,504 | 38,327 |
| | 85,255 | 83,632 |
| Accumulated depreciation | (59,196) | (57,131) |
| | $ 26,059 | $ 26,501 |
| | | |
| Accrued expenses and other current liabilities: | | |
| Wages and benefits | $ 14,196 | $ 17,313 |
| Accrued customer obligations (3) | 8,456 | 11,388 |
| Commissions and professional fees (4) | 3,607 | 3,293 |
| Severance (5) | 2,393 | 3,083 |
| Short-term facility accrual related to discontinued operations (Test) | 1,090 | 1,564 |
| Other | 5,655 | 6,887 |
| | $ 35,397 | $ 43,528 |

(1) All short-term investments were classified as available for sale and were measured at fair value based on level one measurement, or quoted market prices, as defined by ASC No. 820, Fair Value Measurements and Disclosures ("ASC 820"). As of October 1, 2011, fair value approximated the cost basis for short-term investments. The Company did not recognize any realized gains or losses on the sale of investments during the three months ended December 31, 2011 or January 1, 2011.

(2) In accordance with ASC No. 360, Property, Plant and Equipment, due to negative real estate trends and the Company's transition of die bonder manufacturing from Berg, Switzerland to Asia, the Company recorded a $3.0 million write down in value for its building in Berg in fiscal 2011.

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

(4) Balances as of December 31, 2011 and October 1, 2011 include $0.4 million and $0.3 million, respectively, of liability classified stock compensation expenses in connection with the September 2010 retirement of the Company’s former Chief Executive Officer (“CEO”). In addition, balances for both periods include $0.3 million related to his three year consulting arrangement. In addition, $0.2 million and $0.3 million, respectively, were recorded within other liabilities related to the long term portion of his consulting agreement as of December 31, 2011 and October 1, 2011.

(5) Total severance payable within the next twelve months includes restructuring plan discussed in Note 2 and approximately $0.9 million of other severance not part of the Company’s plan for transition and consolidation of operations to Asia.

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 process. The Company performed its annual impairment test in the fourth quarter of fiscal 2011 and concluded that no impairment charge was required. The Company also tests for impairment if a “triggering” event occurs that may have the effect of reducing the fair value of a reporting unit below its respective carrying value. No triggering event occurred during the three months ended December 31, 2011.

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

The following table reflects Goodwill as of December 31, 2011 and October 1, 2011:

| | As of | |
|---|---|---|
| (in thousands) | December 31, 2011 | October 1, 2011 |
| Beginning of period, Goodwill | $ 41,546 | $ 26,698 |
| Increase to Goodwill for Earnout | - | 14,848 |
| End of period, Goodwill | $ 41,546 | $ 41,546 |

Intangible Assets

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

The following table reflects net intangible assets as of December 31, 2011 and October 1, 2011:

| (dollar amounts in thousands) | As of December 31, 2011 | As of October 1, 2011 | Average estimated useful lives (in years) |
|---|---|---|---|
| Wedge bonder developed technology | $ 33,200 | $ 33,200 | 7.0 |
| Accumulated amortization | (15,416 ) | (14,230 ) | |
| Net wedge bonder developed technology | 17,784 | 18,970 | |
| | | | |
| Wedge bonder customer relationships | 19,300 | 19,300 | 5.0 |
| Accumulated amortization | (12,545 ) | (11,580 ) | |
| Net wedge bonder customer relationships | 6,755 | 7,720 | |
| | | | |
| Wedge bonder trade name | 4,600 | 4,600 | 8.0 |
| Accumulated amortization | (1,869 ) | (1,725 ) | |
| Net wedge bonder trade name | 2,731 | 2,875 | |
| | | | |
| Wedge bonder other intangible assets | 2,500 | 2,500 | 1.9 |
| Accumulated amortization | (2,500 ) | (2,500 ) | |
| Net wedge bonder trade name | - | - | |
| Net intangible assets | $ 27,270 | $ 29,565 | |

The following table reflects estimated annual amortization expense related to intangible assets as of December 31, 2011:

| (in thousands) | As of December 31, 2011 |
|---|---|
| Remaining fiscal 2012 | $ 6,883 |
| Fiscal 2013 | 9,178 |
| Fiscal 2014 | 5,318 |
| Fiscal 2015 | 5,318 |
| Fiscal 2016 | 573 |
| | |
| Total amortization expense | $ 27,270 |

NOTE 5: DEBT AND OTHER OBLIGATIONS

The following table reflects debt consisting of Convertible Subordinated Notes as of December 31, 2011 and October 1, 2011:

| | | | | As of | |
|---|---|---|---|---|---|
| Rate | Payment date of each year | Conversion price | Maturity date | December 31, 2011 | October 1, 2011 |
| | | | | (in thousands) | |
| 0.875 % | June 1 and December 1 | $ 14.36 | June 1, 2012 | $ 110,000 | $ 110,000 |
| | Debt discount on 0.875% Convertible Subordinated Notes due June 2012 | | | (3,013 ) | (4,776 ) |
| | | | | $ 106,987 | $ 105,224 |

The following table reflects the estimated fair value of the Company's Convertible Subordinated Notes as of December 31, 2011 and October 1, 2011:

| | Fair value as of (1) | |
|---|---|---|
| Description | December 31, 2011 | October 1, 2011 |
| | (in thousands) | |
| 0.875% Convertible Subordinated Notes | $ 109,324 | $ 109,450 |

(1) In accordance with ASC 820, the Company relies upon observable market data such as its common stock price, interest rates, and other market factors in establishing fair value.

The following table reflects amortization expense related to issue costs from the Company's Convertible Subordinated Notes for the three months ended December 31, 2011 and January 1, 2011:

| | Three Months Ended | |
|---|---|---|
| (in thousands) | December 31, 2011 | January 1, 2011 |
| Amortization expense related to issue costs | $ 147 | $ 138 |

0.875% Convertible Subordinated Notes

Holders of the 0.875% Convertible Subordinated Notes may convert their notes based on an initial conversion rate of approximately 69.6621 shares per $1,000 principal amount of notes (equal to an initial conversion price of approximately $14.355 per share) only under specific circumstances. The initial conversion rate will be adjusted for certain events. The Company presently intends to repay the 0.875% Convertible Subordinated Notes with cash up to the principal amount of the 0.875% Convertible Subordinated Notes and, with respect to any excess conversion value, with shares of its common stock. The Company has the option to elect to satisfy the conversion obligations in cash, common stock or a combination thereof.

The 0.875% Convertible Subordinated Notes are not redeemable at the Company's option. Holders of the 0.875% Convertible Subordinated Notes do not have the right to require the Company to repurchase their 0.875% Convertible Subordinated Notes prior to maturity except in connection with the occurrence of certain fundamental change transactions. The 0.875% Convertible Subordinated Notes may be accelerated upon an event of default as described in the Indenture and will be accelerated upon bankruptcy, insolvency, appointment of a receiver and similar events with respect to the Company.

The Company adopted ASC No. 470.20, Debt, Debt with Conversion Options, which requires that issuers of convertible debt that may be settled in cash upon conversion record the liability and equity components of the convertible debt separately. The liability component of the Company's 0.875% Convertible Subordinated Notes is classified as debt and the equity component of the 0.875% Convertible Subordinated Notes is classified as common stock on the Company's Consolidated Balance Sheets.

Credit Facility

On April 4, 2011, Kulicke & Soffa Pte. Ltd. (“Pte”), the Company’s wholly owned subsidiary, entered into a Short Term Credit Facilities Agreement (the “Facilities Agreement”) with DBS Bank Ltd. (“DBS Bank”). In accordance with the Facilities Agreement, DBS Bank has agreed to make available to Pte the following banking facilities:

(i) a short-term loan facility of up to $12.0 million (the “STL Facility”); and
(ii) a revolving credit facility of up to $8.0 million (the “RC Facility”).

The STL Facility is an uncommitted facility, and therefore, is cancellable by DBS Bank at any time in its sole discretion. Borrowings under the STL Facility bear interest at the Singapore Interbank Offered Rate (“SIBOR”) plus 1.5%. The RC Facility is a committed facility and is available to Pte until September 10, 2013, the maturity date. Borrowings under the RC Facility bear interest at SIBOR plus 2.5%. The Facilities Agreement has been entered into in order to provide support, if needed, to fund Pte’s working capital requirements. Pte did not have any borrowings under the Facilities Agreement as of December 31, 2011.

The Facilities Agreement and related debenture dated April 4, 2011 replaced the facilities agreement and related debenture by and between Kulicke and Soffa Global Holding Corporation, a wholly-owned subsidiary of the Company, and DBS Bank Ltd. (Labuan Branch), entered into on September 29, 2010, which were terminated as of April 4, 2011. There were no borrowings under this facilities agreement as of January 1, 2011.

NOTE 6: SHAREHOLDERS’ EQUITY AND EMPLOYEE BENEFIT PLANS

Common Stock and 401(k) Retirement Income Plan

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

The following table reflects the Company’s matching contributions to the Plan which were made in the form of issued and contributed shares of common stock or cash during the three months ended December 31, 2011 and January 1, 2011:

| | Three months ended | |
|---|---|---|
| (in thousands) | December 31, 2011 | January 1, 2011 |
| Number of common shares | n/a | 42 |
| Fair value based upon market price at date of distribution | n/a | $ 279 |
| Cash | $ 246 | n/a |

Accumulated Other Comprehensive Income

The following table reflects accumulated other comprehensive income reflected on the Consolidated Balance Sheets as of December 31, 2011 and October 1, 2011:

| (in thousands) | As of December 31, 2011 | As of October 1, 2011 |
|---|---|---|
| Gain from foreign currency translation adjustments | $ 2,957 | $ 2,789 |
| Unrecognized actuarial gain, Switzerland pension plan, net of tax | 157 | 143 |
| Switzerland pension plan curtailment | (388) | (388) |
| Accumulated other comprehensive income | $ 2,726 | $ 2,544 |

The following table reflects the components of comprehensive income for the three months ended December 31, 2011 and January 1, 2011:

| (in thousands) | Three Months Ended December 31, 2011 | Three Months Ended January 1, 2011 |
|---|---|---|
| Net income | $ 8,507 | $ 15,099 |
| Gain from foreign currency translation adjustments | 168 | 697 |
| Unrecognized actuarial net gain (loss), Switzerland pension plan, net of tax | 14 | (42) |
| Other comprehensive income | $ 182 | $ 655 |
| Comprehensive income | $ 8,689 | $ 15,754 |

Equity-Based Compensation

As of December 31, 2011, the Company had seven equity-based employee compensation plans (the “Employee Plans”) and three director compensation plans (the “Director Plans”) (collectively, the “Plans”). Under these Plans, market-based share awards (collectively, “market-based restricted stock”), time-based share awards (collectively, “time-based restricted stock”), performance-based share awards (collectively, “performance-based restricted stock”), stock options, or common stock have been granted at 100% of the market price of the Company’s common stock on the date of grant.

As of December 31, 2011, the Company's one active plan, the 2009 Equity Plan, had 5.5 million shares of common stock available for grant to its employees and directors.

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

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

- Performance-based restricted stock 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 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.

Equity-based compensation expense recognized in the Consolidated Statements of Operations for the three months ended December 31, 2011 and January 1, 2011 was based upon awards ultimately expected to vest. In accordance with ASC 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 Company did not issue any stock options during the three months ended December 31, 2011 or January 1, 2011. The following table reflects restricted stock and common stock granted during the three months ended December 31, 2011 and January 1, 2011:

| | Three months ended | |
|---|---|---|
| (shares in thousands) | December 31, 2011 | January 1, 2011 |
| Market-based restricted stock | 428 | 349 |
| Time-based restricted stock | 686 | 616 |
| Common stock | 25 | 29 |
| Equity-based compensation in shares | 1,139 | 994 |

16

The following table reflects total equity-based compensation expense, which includes restricted stock, stock options and common stock, included in the Consolidated Statements of Operations during the three months ended December 31, 2011 and January 1, 2011:

| | Three Months Ended | |
|---|---|---|
| (in thousands) | December 31, 2011 | January 1, 2011 |
| Cost of sales | $ 85 | $ 48 |
| Selling, general and administrative | 1,611 | 963 |
| Research and development | 403 | 276 |
| Total equity-based compensation expense | $ 2,099 | $ 1,287 |

The following table reflects equity-based compensation expense, by type of award, for the three months ended December 31, 2011 and January 1, 2011:

| | Three Months Ended | |
|---|---|---|
| (in thousands) | December 31, 2011 | January 1, 2011 |
| Market-based restricted stock | $ 598 | $ 2 |
| Time-based restricted stock | 1,140 | 999 |
| Performance-based restricted stock | 172 | 71 |
| Stock options | 9 | 35 |
| Common stock | 180 | 180 |
| Total equity-based compensation expense | $ 2,099 | $ 1,287 |

Pension Plan

In accordance with regulations in Switzerland, the Company sponsors a Switzerland pension plan covering active employees whose minimum benefits are guaranteed. During fiscal 2011, the Company announced the intention to reduce its Switzerland workforce by approximately 50 employees, which triggered a curtailment of the Switzerland pension plan under ASC No. 715, Topic 30, Compensation – Retirement Benefits, Defined Benefit Plans. As a result, the Company recognized a pretax curtailment and settlement gain of approximately $1.8 million during three months ended December 31, 2011.

NOTE 7: EARNINGS PER SHARE

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

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

The Company's 0.875% Convertible Subordinated Notes would not result in the issuance of any dilutive shares, since the Notes were not convertible and the conversion option was not "in the money" as of December 31, 2011 and January 1, 2011. Accordingly, diluted EPS excludes the effect of the conversion of the 0.875% Convertible Subordinated Notes.

The following tables reflect a reconciliation of the shares used in the basic and diluted net income per share computation for the three months ended December 31, 2011 and January 1, 2011:

| | Three months ended | | | |
|---|---|---|---|---|
| (in thousands, except per share) | December 31, 2011 | | January 1, 2011 | |
| | Basic | Diluted | Basic | Diluted |
| NUMERATOR: | | | | |
| Net income | $8,507 | $8,507 | $15,099 | $15,099 |
| Less: income applicable to participating securities | (20) | (20) | (96) | (96) |
| After-tax interest expense | - | n/a | - | n/a |
| | | | | |
| Net income applicable to common shareholders | $8,487 | $8,487 | $15,003 | $15,003 |
| | | | | |
| DENOMINATOR: | | | | |
| Weighted average shares outstanding - Basic | 73,540 | 73,540 | 70,881 | 70,881 |
| Stock options | | 104 | | 107 |
| Time-based restricted stock | | 457 | | 401 |
| Market-based restricted stock | | 527 | | 172 |
| Performance-based restricted stock | | - | | 145 |
| Weighted average shares outstanding - Diluted (1) | | 74,628 | | 71,706 |
| | | | | |
| EPS: | | | | |
| Net income per share - Basic | $0.12 | $0.12 | $0.21 | $0.21 |
| | | | | |
| Effect of dilutive shares | | (0.01) | | - |
| | | | | |
| Net income per share - Diluted | | $0.11 | | $0.21 |

(1) For the three months ended December 31, 2011 and January 1, 2011, excludes 10 and 298 dilutive participating securities, respectively, as the income attributable to these shares was not included in EPS.

For the three months ended December 31, 2011 and January 1, 2011, 0.3 million and 1.6 million potentially dilutive shares, respectively, related to out of the money stock options were excluded from EPS.

NOTE 8: INCOME TAXES

The following table reflects the provision for income taxes and the effective tax rate for the three months ended December 31, 2011 and January 1, 2011:

| | Three months ended | |
|---|---|---|
| (dollar amounts in thousands) | December 31, 2011 | January 1, 2011 |
| Income from operations before income taxes | $ 10,484 | $ 20,158 |
| Provision for income taxes | 1,977 | 5,059 |
| Net income | $ 8,507 | $ 15,099 |
| | | |
| Effective tax rate | 18.9 % | 25.1 % |

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

For the three months ended January 1, 2011, the effective income tax rate differed from the federal statutory rate primarily due to tax from foreign operations at a lower effective tax rate than the U.S. statutory rate and the impact of tax holidays, and decreases in the valuation allowance offset by an increase for deferred taxes on un-remitted earnings as well as other U.S. current and deferred taxes.

In fiscal 2011, a tax application filed with a foreign jurisdiction was rejected by that country's tax authority and the Company has filed an appeal. As a result of the rejection of the application, the Company reconsidered its position and determined the benefit taken on its previously filed tax returns no longer met the recognition standard required under ASC 740. Therefore during fiscal 2011, the Company provided a current liability of $7.5 million related to this certain unrecognized tax position, including penalties. No interest was accrued, as it is not provided for under the tax laws of the foreign jurisdiction.

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

NOTE 9: SEGMENT INFORMATION

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

The following table reflects operating information by segment for the three months ended December 31, 2011 and January 1, 2011:

| | Three Months Ended | |
|---|---|---|
| (in thousands) | December 31, 2011 | January 1, 2011 |
| Net revenue: | | |
| Equipment | $ 106,149 | $ 132,698 |
| Expendable Tools | 13,875 | 16,165 |
| Net revenue | 120,024 | 148,863 |
| Cost of sales : | | |
| Equipment | 59,004 | 70,238 |
| Expendable Tools | 5,744 | 6,513 |
| Cost of sales | 64,748 | 76,751 |
| Gross profit : | | |
| Equipment | 47,145 | 62,460 |
| Expendable Tools | 8,131 | 9,652 |
| Gross profit | 55,276 | 72,112 |
| Operating expenses: | | |
| Equipment | 37,268 | 43,276 |
| Expendable Tools | 5,632 | 6,769 |
| Operating expenses | 42,900 | 50,045 |
| Income from operations: | | |
| Equipment | 9,877 | 19,184 |
| Expendable Tools | 2,499 | 2,883 |
| | $ 12,376 | $ 22,067 |

The following table reflects assets by segment as of December 31, 2011 and October 1, 2011:

| | As of | |
|---|---|---|
| (in thousands) | December 31, 2011 | October 1, 2011 |
| Segment assets: | | |
| Equipment | $ 575,128 | $ 639,149 |
| Expendable Tools | 126,384 | 89,242 |
| Total assets | $ 701,512 | $ 728,391 |

The following tables reflect capital expenditures for the three months ended December 31, 2011 and January 1, 2011, and depreciation expense for the three months ended December 31, 2011 and January 1, 2011:

| | Three Months Ended | |
|---|---|---|
| (in thousands) | December 31, 2011 | January 1, 2011 |
| Capital expenditures: | | |
| Equipment | $ 1,187 | $ 1,487 |
| Expendable Tools | 311 | 1,218 |
| Capital expenditures | $ 1,498 | $ 2,705 |
| | | |
| Depreciation expense | | |
| Equipment | $ 1,400 | $ 1,522 |
| Expendable Tools | 563 | 499 |
| Depreciation expense | $ 1,963 | $ 2,021 |

NOTE 10: 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.

The following table reflects the reserve for product warranty activity for the three months ended December 31, 2011 and January 1, 2011:

| | Three months ended | |
|---|---|---|
| (in thousands) | December 31, 2011 | January 1, 2011 |
| Reserve for product warranty, beginning of period | $ 2,245 | $ 2,657 |
| Provision for product warranty | 174 | 408 |
| Product warranty costs paid | (805 ) | (829 ) |
| Reserve for product warranty, end of period | $ 1,614 | $ 2,236 |

Other Commitments and Contingencies

The following table reflects operating lease obligations not reflected on the Consolidated Balance Sheet as of December 31, 2011:

| | | Payments due by fiscal year | | | | |
|---|---|---|---|---|---|---|
| (in thousands) | Total | 2012 | 2013 | 2014 | 2015 | thereafter |
| Operating lease obligations (1) | $ 28,433 | $ 7,558 | $ 7,562 | $ 3,214 | $ 2,717 | $ 7,382 |

(1) The Company has minimum rental commitments under various leases which are not recorded as liabilities on the balance sheet (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).

Concentrations

The following tables reflect significant customer concentrations for the three months ended and as of December 31, 2011 and January 1, 2011:

| | Three months ended | | | |
|---|---|---|---|---|
| | December 31, 2011 | | January 1, 2011 | |
| Customer net revenue as a percentage of Net Revenue | | | | |
| Advanced Semiconductor Engineering | 15.3 | % | * | |
| Haoseng Industrial Company Limited (1) | 10.0 | % | * | |
| | | | | |
| Customer accounts receivable as a percentage of Total Accounts Receivable | | | | |
| Advanced Semiconductor Engineering | 17.7 | % | * | |
| Haoseng Industrial Company Limited (1) | 15.0 | % | 11.4 | % |
| Siliconware Precision Industries Co. Limited | * | | 10.4 | % |

* Represents less than 10% of net revenue or total accounts receivable, as applicable.
(1) Distributor of the Company's products.

## 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 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 demand for our products, the continuing transition from gold to copper wire bonding, replacement demand, our research and development efforts, our ability to identify and realize new growth opportunities, our ability to control costs and our operational flexibility as a result of (among other factors):

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

Generally, words such as "may," "will," "should," "could," "anticipate," "expect," "intend," "estimate," "plan," "contin "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, 2011 and our other reports and registration statements filed from time to time with the Securities and Exchange Commission. This discussion should be read in conjunction with the Consolidated Financial Statements and Notes included in this report, as well as our audited financial statements included in the Annual Report.

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

### OVERVIEW

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

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

Business Environment

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

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

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

We continue to position our business to leverage our research and development leadership and innovation and to focus our efforts on mitigating volatility, improving profitability and ensuring longer-term growth. We remain focused on operational excellence, expanding our product offerings and managing our business efficiently throughout the business cycles.

To limit potential adverse cyclical, seasonal and macroeconomic effects on our financial position, we have de-leveraged and strengthened our balance sheet. We intend to repay our 0.875% Convertible Subordinated Notes with cash up to the principal amount of $110.0 million at maturity in fiscal 2012. As of December 31, 2011, our total cash, cash equivalents and investments was $403.8 million, which exceeded the face value of our total debt by $293.8 million, a $19.2 million increase from our fiscal year end. This strong cash position better enables continual investment in product development as well as in production capability improvements throughout the semiconductor cycle.

Technology Leadership

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

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

Our leadership has allowed us to maintain a competitive position in the latest generations of gold and copper ball bonders, which enable our customers to handle the leading technologies in terms of pitch and bond size. We have recently seen increased demand for our large bondable area ("LA") configured machines. This LA option is now available on all of our Power Series ("PS") models and allows our customers to gain added efficiencies and to reduce the cost of packaging.

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

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

Another example of our developing equipment for high-growth niche markets is our AT Premier. This machine utilizes a modified wire bonding process to mechanically place bumps on devices, while still in a wafer format, for variants of the flip chip assembly process. Typical applications include complimentary 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.

Our focus on technology leadership also extends to die bonding. Our state of the art iStackPS die bonder for advanced stacked die applications offers best-in-class throughput and accuracy.

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

Products and Services

We supply a range of bonding equipment and expendable tools. The following table reflects net revenue by business segment for the three months ended December 31, 2011 and January 1, 2011, respectively:

| | Three months ended | | | |
|---|---|---|---|---|
| | December 31, 2011 | | January 1, 2011 | |
| (dollar amounts in thousands) | Net Revenues | % of total net revenue | Net Revenues | % of total net revenue |
| Equipment | $ 106,149 | 88.4 % | $ 132,698 | 89.1 % |
| Expendable Tools | 13,875 | 11.6 % | 16,165 | 10.9 % |
| | $ 120,024 | 100.0 % | $ 148,863 | 100.0 % |

Equipment Segment

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

Our principal Equipment segment products include:

| Business Unit | Product Name (1) | Typical Served Market |
|---|---|---|
| Ball bonders | IConnPS | Advanced and ultra fine pitch applications using either gold or copper wire |
| | IConnPS ProCu | High-end copper wire applications demanding advanced process capability and high productivity |
| | IConnPS ProCu LA | Large area substrate and matrix applications for copper wire |
| | IConnPS LA | Large area substrate and matrix applications |
| | ConnXPS | Cost performance, low pin count applications using either gold or copper wire |
| | ConnXPS LED | LED applications |
| | ConnXPS VLED | Vertical LED applications |
| | ConnXPS LA | Cost performance large area substrate and matrix applications |
| | AT Premier | Stud bumping applications (high brightness LED and image sensor) |
| Wedge bonders | 3600Plus | Power hybrid and automotive modules using either heavy aluminum wire or PowerRibbon® |
| | 3700Plus | Hybrid and automotive modules using thin aluminum wire |
| | 7200Plus | Power semiconductors using either aluminum wire or ribbon |
| | 7200HD | Smaller power packages using either aluminum wire or ribbon |
| | 7600HD | Power semiconductors including smaller power packages using either aluminum wire or ribbon |
| Die bonder | iStackPS | Advanced stacked die and ball grid array applications |

(1) Power Series (“PS”)

Ball Bonders

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

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

Our AT Premier machine utilizes a modified wire bonding process to mechanically place bumps on devices, while still in a wafer format, for variants of the flip chip assembly process. Typical applications include CMOS image sensors, SAW filters and high brightness LEDs. These applications are commonly used in most, if not all, smartphones available today in the market.

Heavy Wire Wedge Bonders

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

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

Die Bonders

Our die bonder, the iStackPS, focuses on stacked die applications for both memory and subcontract assembly customers. iStackPS is targeted at stacked die and high-end ball grid array (BGA) applications. In these applications, we expect up to 40% productivity increases compared to current generation machines. In addition, iStackPS has demonstrated superior accuracy and process control.

Other Equipment Products and Services

We also sell manual wire bonders, and we offer spare parts, equipment repair, training services, and upgrades for our equipment through our Support Services business unit.

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, 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, our capillaries are used with both gold and copper wire.

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

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

RESULTS OF OPERATIONS

The following tables reflect our income from operations for the three months ended December 31, 2011 and January 1, 2011:

| | Three Months Ended | | | |
|---|---|---|---|---|
| (dollar amounts in thousands) | December 31, 2011 | January 1, 2011 | $ Change | % Change |
| Net revenue | $ 120,024 | $ 148,863 | $ (28,839) | -19.4 % |
| Cost of sales | 64,748 | 76,751 | (12,003) | -15.6 % |
| Gross profit | 55,276 | 72,112 | (16,836) | -23.3 % |
| | | | | |
| Selling, general and administrative | 28,752 | 34,850 | (6,098) | -17.5 % |
| Research and development | 14,148 | 15,195 | (1,047) | -6.9 % |
| Operating expenses | 42,900 | 50,045 | (7,145) | -14.3 % |
| | | | | |
| Income from operations | $ 12,376 | $ 22,067 | $ (9,691) | -43.9 % |

Net Revenue

Approximately 98.0% and 97.0% of our net revenue for the three months ended December 31, 2011 and January 1, 2011, respectively, was for shipments to customer locations outside of the U.S., primarily in the Asia/Pacific region. We expect sales outside of the U.S. to represent a majority of our future net revenue.

The following table reflects net revenue by business segment for the three months ended December 31, 2011 and January 1, 2011:

| (dollar amounts in thousands) | Three months ended December 31, 2011 | January 1, 2011 | $ Change | % Change |
|---|---|---|---|---|
| Equipment | $ 106,149 | $ 132,698 | $ (26,549 ) | -20.0 % |
| Expendable Tools | 13,875 | 16,165 | (2,290 ) | -14.2 % |
| Total net revenue | $ 120,024 | $ 148,863 | $ (28,839 ) | -19.4 % |

Equipment

The following table reflects the components of Equipment net revenue change between the three months ended December 31, 2011 and January 1, 2011:

| | December 31, 2011 vs. January 1, 2011 | | |
|---|---|---|---|
| (in thousands) | Price | Volume | Change |
| Equipment | $ 2,215 | $ (28,764) | $ (26,549) |

For the three months ended December 31, 2011, lower Equipment net revenue as compared to the prior year period was due primarily to lower volume for our wedge bonders and AT Premier bonders. The reduction in wedge bonder volume was attributable mainly to the power discrete semiconductor packaging portion of the market. Our customers built up their inventories, but slowing demand from the end users of our customers' devices resulted in our customers cutting back their production, reducing their need for new equipment. Sales to the power hybrid market remained fairly flat. Lower volumes were partially offset by favorable pricing from our ball bonders due to a change in customer and product mix from our IConnPS ProCu and our large bondable area products.

Expendable Tools

The following table reflects the components of Expendable Tools net revenue change between the three months ended December 31, 2011 and January 1, 2011:

| | December 31, 2011 vs. January 1, 2011 | | |
|---|---|---|---|
| (in thousands) | Price | Volume | Change |
| Expendable Tools | $ 149 | $ (2,439 ) | $ (2,290 ) |

For the three months ended December 31, 2011, Expendable Tools net revenue decreased as volume was generally lower across all product lines. These decreases were attributable to the general slowdown in the industry.

Gross Profit

The following table reflects gross profit by business segment for the three months ended December 31, 2011 and January 1, 2011:

| | Three months ended | | | |
|---|---|---|---|---|
| (dollar amounts in thousands) | December 31, 2011 | January 1, 2011 | $ Change | % Change |
| Equipment | $ 47,145 | $ 62,460 | $ (15,315 ) | -24.5 % |
| Expendable Tools | 8,131 | 9,652 | (1,521 ) | -15.8 % |
| Total gross profit | $ 55,276 | $ 72,112 | $ (16,836 ) | -23.3 % |

The following table reflects gross profit as a percentage of net revenue by business segment:

| | Three months ended | | Basis Point |
|---|---|---|---|
| | December 31, 2011 | January 1, 2011 | Change |
| Equipment | 44.4 % | 47.1 % | (270 ) |
| Expendable Tools | 58.6 % | 59.7 % | (110 ) |
| Total gross profit | 46.1 % | 48.4 % | (230 ) |

Equipment

The following table reflects the components of Equipment gross profit change between the three months ended December 31, 2011 and January 1, 2011:

| | December 31, 2011 vs. January 1, 2011 | | | |
|---|---|---|---|---|
| (in thousands) | Price | Cost | Volume | Change |
| Equipment | $ 2,215 | $ (3,261 ) | $ (14,269) | $ (15,315) |

For the three months ended December 31, 2011, lower Equipment gross profit as compared to the prior year period was due primarily to lower volume for our wedge bonders and AT Premier bonders. The reduction in wedge bonder volume was attributable mainly to the power discrete semiconductor packaging portion of the market. Our customers built up their inventories, but slowing demand from the end users of our customers' devices resulted in our customers cutting back their production, reducing their need for new equipment. Sales to the power hybrid market remained fairly flat.

Increased costs impacted gross profit and were mainly attributable to our wedge bonders and ball bonders. Increased costs for our wedge bonders were due to lower manufacturing volumes at our wedge bonder facilities in the U.S. and Asia.  Ball bonder costs were higher due to a change in customer and product mix from our IConnPS ProCu and our large bondable area products.

Unfavorable volume and cost changes were partially offset by favorable pricing from our ball bonders due to a change in customer and product mix from our IConnPS ProCu and our large bondable area products.

Expendable Tools

The following table reflects the components of Expendable Tools gross profit change between the three months ended December 31, 2011 and January 1, 2011:

| | December 31, 2011 vs. January 1, 2011 | | | |
|---|---|---|---|---|
| (in thousands) | Price | Cost | Volume | Change |
| Expendable Tools | $ 149 | $ (187 ) | $ (1,483 ) | $ (1,521 ) |

For the three months ended December 31, 2011, Expendable Tools gross profit decreased as volume was generally lower across all product lines. These decreases were attributable to the general slowdown in the industry.

Operating Expenses

The following table reflects operating expenses as a percentage of net revenue:

| | Three months ended | | Basis point |
|---|---|---|---|
| | December 31, 2011 | January 1, 2011 | change |
| Selling, general & administrative | 24.0 % | 23.4 % | (60 ) |
| Research & development | 11.8 % | 10.2 % | (160 ) |
| Total operating expenses | 35.8 % | 33.6 % | (220 ) |

Selling, General and Administrative ("SG&A")

SG&A decreased $6.1 million during the three months ended December 31, 2011 as compared to the three months ended January 1, 2011 due primarily to:

- $2.8 million decrease in sales commissions and incentives due to lower net revenue for the current fiscal quarter;
- $1.8 million due to the curtailment of our Switzerland pension plan; and
- $1.4 million lower incentive compensation expense as a result of lower net income for the current fiscal quarter.

Research and Development ("R&D")

R&D expense decreased $1.0 million for the three months ended December 31, 2011 as compared to the same period a year ago due primarily to lower staff costs as a result of the consolidation and reduction of headcount to further streamline our R&D technology centers.

Income from Operations

The following table reflects income from operations for the three months ended December 31, 2011 and January 1, 2011:

| (dollar amounts in thousands) | Three months ended December 31, 2011 | January 1, 2011 | $ Change | % Change |
|---|---|---|---|---|
| Equipment | $ 9,877 | $ 19,184 | $ (9,307 ) | -48.5 % |
| Expendable Tools | 2,499 | 2,883 | (384 ) | -13.3 % |
| Total income from operations | $ 12,376 | $ 22,067 | $ (9,691 ) | -43.9 % |

Equipment

For the three months ended December 31, 2011, lower Equipment income from operations as compared to the prior year period was due primarily to lower volume for our wedge bonders and AT Premier bonders. The reduction in wedge bonder volume was attributable mainly to the power discrete semiconductor packaging portion of the market. Our customers built up their inventories, but slowing demand from the end users of our customers' devices resulted in our customers cutting back their production, reducing their need for new equipment. Sales to the power hybrid market remained fairly flat.

In addition, lower income from operations was a result of higher costs mainly attributable to our wedge bonders and ball bonders. Increased costs for wedge bonders were due to lower manufacturing volumes at our facilities in the U.S. and Asia. Ball bonder costs were higher due to a change in customer and product mix from our IConnPS ProCu and our large bondable area products.

Unfavorable volume and cost changes were partially offset by favorable pricing from our ball bonders due to a change in customer and product mix from our IConnPS ProCu and our large bondable area products.

Expendable Tools

For the three months ended December 31, 2011, Expendable Tools income from operations decreased as volume was generally lower across all product lines. These decreases were attributable to the general slowdown in the industry.

Interest Income and Expense

The following table reflects interest income and interest expense for the three months ended December 31, 2011 and January 1, 2011:

| (dollar amounts in thousands) | Three months ended December 31, 2011 | January 1, 2011 | $ Change | % Change |
|---|---|---|---|---|
| Interest income | $ 260 | $ 105 | $ 155 | 147.6 % |
| Interest expense: cash | (242 ) | (242 ) | - | 0.0 % |
| Interest expense: non-cash | (1,910 ) | (1,772 ) | (138 ) | 7.8 % |

Interest income for the three months ended December 31, 2011 was higher as compared to the prior year period due to higher invested cash and short-term investment balances.

Non-cash interest expense for the three months ended December 31, 2011 and January 1, 2011is attributable to the amortization of the debt discount related to our 0.875% Convertible Subordinated Notes.

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, 2011 and January 1, 2011:

| | Three months ended | |
|---|---|---|
| (in thousands) | December 31, 2011 | January 1, 2011 |
| Income from operations before income taxes | $ 10,484 | $ 20,158 |
| Provision for income taxes | 1,977 | 5,059 |
| Net income | $ 8,507 | $ 15,099 |
| | | |
| Effective tax rate | 18.9 % | 25.1 % |

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

For the three months ended January 1, 2011, the effective income tax rate differed from the federal statutory rate primarily due to tax from foreign operations at a lower effective tax rate than the U.S. statutory rate, the impact of tax holidays and decreases in the valuation allowance offset by an increase for deferred taxes on un-remitted earnings as well as other U.S. current and deferred taxes.

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

LIQUIDITY AND CAPITAL RESOURCES

The following table reflects total cash and investments as of December 31, 2011 and October 1, 2011:

| | As of | | |
|---|---|---|---|
| (dollar amounts in thousands) | December 31, 2011 | October 1, 2011 | Change |
| Cash and cash equivalents | $ 403,761 | $ 378,188 | $ 25,573 |
| Short-term investments | - | 6,364 | (6,364 ) |
| Total cash and investments | $ 403,761 | $ 384,552 | $ 19,209 |
| Percentage of total assets | 57.6 % | 52.8 % | |

The following table reflects summary Consolidated Statement of Cash Flow information for the three months ended December 31, 2011 and January 1, 2011:

| | Three months ended | |
|---|---|---|
| (in thousands) | December 31, 2011 | January 1, 2011 |
| Net cash provided by continuing operations | $ 34,324 | $ 25,310 |
| Net cash used in discontinued operations | (486) | (524) |
| Net cash provided by operating activities | $ 33,838 | $ 24,786 |
| Net cash used in investing activities | (9,982) | (5,648) |
| Net cash provided by financing activities | 1,576 | 125 |
| Effect of exchange rate changes on cash and cash equivalents | 141 | 176 |
| Changes in cash and cash equivalents | $ 25,573 | $ 19,439 |
| Cash and cash equivalents, beginning of period | 378,188 | 178,112 |
| Cash and cash equivalents, end of period | $ 403,761 | $ 197,551 |

Three months ended December 31, 2011

Continuing Operations

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

Net cash provided by investing activities was due to the sale of short term investments of $6.4 million partially offset by capital expenditures of $1.5 million. In addition, the three months ended December 31, 2011 included a one-time payment of $14.8 million related to the Company's Earnout Agreement with Orthodyne Electronics Corporation related to its acquisition of that business in October 2008.

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

Discontinued Operations

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

Three months ended January 1, 2011

Continuing Operations

Net cash provided by operating activities was primarily the result of net income of $15.1 million plus non-cash adjustments of $11.8 million partially offset by changes in working capital of $1.6 million. Working capital changes were primarily driven by decreases in accounts payable, accrued expenses, and other current liabilities and decreases in accounts receivable.

Net cash used in investing activities of $5.6 million was comprised of capital expenditures of $2.7 million and purchases of short term investments of $3.2 million.

35

Discontinued Operations

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

Fiscal 2012 Liquidity and Capital Resource Outlook

We expect our remaining fiscal 2012 capital expenditures to be $10.0 to $11.0 million. Expenditures are anticipated to be used for R&D projects, enhancements to our manufacturing operations in Asia and improvements to our information technology infrastructure.

We believe that our existing cash and investments, anticipated cash flows from operations and available credit facility 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 will continue to use our cash for working capital needs, general corporate purposes, and to repay our Convertible Subordinated Notes upon maturity.

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

Convertible Subordinated Notes

The following table reflects additional information regarding our Convertible Subordinated Notes as of December 31, 2011:

| Description | Maturity Date | Par Value | Fair Value as of December 31, 2011 (1) |
|---|---|---|---|
| | | (in thousands) | |
| 0.875% Convertible Subordinated Notes (2) | June 1, 2012 | $ 110,000 | $ 109,324 |

(1) In accordance with ASC 820, we rely upon observable market data such as our common stock price, interest rates, and other market factors.

(2) We determined maintenance of our corporate rating was not necessary; therefore, our 0.875% Convertible Subordinated Notes are not rated.

Other Obligations and Contingent Payments

In accordance with U.S. generally accepted accounting principles, certain obligations and commitments are not required to be included in the Consolidated Balance Sheets and Statements of Operations. These obligations and commitments, while entered into in the normal course of business, may have a material impact on our liquidity. Certain of the following commitments as of December 31, 2011 are appropriately not included in the Consolidated Balance Sheets and Statements of Operations included in this Form 10-Q; however, they have been disclosed in the following table for additional information.

36

Other Obligations and Contingent Payments

The following table reflects obligations and contingent payments under various arrangements as of December 31, 2011:

| | | Payments due by fiscal period | | | | |
|---|---|---|---|---|---|---|
| (in thousands) | Total | Less than 1 year | 1 - 3 years | 3 - 5 years | More than 5 years | Due date not determinable |
| Contractual Obligations: | | | | | | |
| Convertible Subordinated Notes, par value (1) | $ 110,000 | $ 110,000 | | | | |
| | | | | | | |
| Current and long-term liabilities: | | | | | | |
| Pension plan obligations | 5,646 | | | | | $ 5,646 |
| Severance | 2,508 | 2,393 | $ 115 | | | |
| Facility accrual related to discontinued operations (Test) | 1,090 | 1,090 | | | | |
| Obligations related to Chief Executive Officer transition (2) | 926 | 698 | 228 | | | |
| Operating lease retirement obligations | 2,505 | 771 | 941 | $ - | $ 793 | |
| Long-term income taxes payable | 1,864 | | | | 1,864 | |
| Total Obligations and Contingent Payments reflected on the Consolidated Financial Statements | $ 124,539 | $ 114,952 | $ 1,284 | $ - | $ 2,657 | $ 5,646 |
| | | | | | | |
| Contractual Obligations: | | | | | | |
| Inventory purchase obligations (3) | $ 68,767 | $ 68,767 | | | | |
| Operating lease obligations (4) | 28,433 | 9,551 | $ 9,533 | $ 5,011 | $ 4,338 | |
| Cash paid for interest | 481 | 481 | | | | |
| Total Obligations and Contingent Payments not reflected on the Consolidated Financial Statements | $ 97,681 | $ 78,799 | $ 9,533 | $ 5,011 | $ 4,338 | $ - |

(1) Does not reflect debt discount of $3.0 million related to our 0.875% Convertible Subordinated Notes.
(2) In connection with the September 2010 retirement of our former Chief Executive Officer ("CEO"), we entered into a three-year consulting arrangement with him. Additionally in connection with his retirement, we agreed to make

deferred cash payments equal to the difference, if any, between (i) the fair market value of our shares of common stock to which he would have been entitled pursuant to the performance share unit awards granted to him in fiscal 2008 and 2009 had he remained employed through June 30, 2011 and (ii) the fair market value of our shares of common stock actually received by him pursuant to such awards. In July 2011, $1.7 million was paid as a deferred cash payment. An additional deferred cash payment, if any, is expected to be paid in February 2012.
(3) We order inventory components in the normal course of our business. A portion of these orders are non-cancelable and a portion may have varying penalties and charges in the event of cancellation.
(4) We have minimum rental commitments under various leases (excluding taxes, insurance, maintenance and repairs, which are also paid by us) primarily for various facility and equipment leases, which expire periodically through 2018 (not including lease extension options, if applicable).

Credit Facility

On April 4, 2011, Kulicke & Soffa Pte. Ltd. (“Pte”), our wholly owned subsidiary, entered into a Short Term Credit Facilities Agreement (the “Facilities Agreement”) with DBS Bank Ltd. (“DBS Bank”). In accordance with the Facilities Agreement, DBS Bank has agreed to make available to Pte the following banking facilities:

(i) a short-term loan facility of up to $12.0 million (the “STL Facility”); and
(ii) a revolving credit facility of up to $8.0 million (the “RC Facility”).

The STL Facility is an uncommitted facility, and therefore, is cancellable by DBS Bank at any time in its sole discretion. Borrowings under the STL Facility bear interest at the Singapore Interbank Offered Rate (“SIBOR”) plus 1.5%. The RC Facility is a committed facility and is available to Pte until September 10, 2013, the maturity date. Borrowings under the RC Facility bear interest at SIBOR plus 2.5%. The Facilities Agreement has been entered into in order to provide support, if needed, to fund Pte’s working capital requirements. Pte did not have any borrowings under the Facilities Agreement as of December 31, 2011.

The Facilities Agreement and related debenture dated April 4, 2011 replaced the facilities agreement and related debenture by and between Kulicke and Soffa Global Holding Corporation, our wholly-owned subsidiary, and DBS Bank Ltd. (Labuan Branch), entered into on September 29, 2010, which were terminated as of April 4, 2011. There were no borrowings under this facilities agreement as of January 1, 2011.

Off-Balance Sheet Arrangements

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

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Interest Rate Risk

Our available-for-sale securities, if applicable, may consist of short-term investments in highly rated debt instruments of the U.S. Government and its agencies, financial institutions, and corporations. We continually monitor our exposure to changes in interest rates and credit ratings of issuers with respect to any available-for-sale securities and target an average life to maturity of less than eighteen months. Accordingly, we believe that the effects to us of changes in interest rates and credit ratings of issuers are limited and would not have a material impact on our financial condition or results of operations. As of December 31, 2011, 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. We 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 our reporting currency, the U.S. dollar, most notably in China and Japan. Our U.S. operations also have foreign currency exposure due to net monetary assets denominated in currencies other than the U.S. dollar.

38

Based on our overall currency rate exposure as of December 31, 2011, a near term 10.0% appreciation or depreciation in the foreign currency portfolio to the U.S. dollar could impact on our financial position, results of operations or cash flows by $4 to $5 million. Our board of directors has granted management the authority to enter into foreign exchange forward contracts and other instruments designed to minimize the short term impact currency fluctuations have on our business. We may enter into foreign exchange forward contracts and other instruments in the future; however, our attempts to hedge against these risks may not be successful and may result in a material adverse impact on our financial results and cash flow. We had no foreign exchange forward contracts or other instruments as of December 31, 2011.

## 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, 2011. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that, as of December 31, 2011our disclosure controls and procedures were effective in providing reasonable assurance the information required to be disclosed by us in reports filed under the Securities Exchange Act of 1934, as amended, is (i) recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission’s rules and forms and (ii) accumulated and communicated to our management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding disclosure.

## PART II OTHER INFORMATION

## Item 1A. RISK FACTORS

### Certain Risks Related to Our Business

Risks related to our business are detailed in our Annual Report on Form 10-K for the year ended October 1, 2011 filed with the Securities and Exchange Commission.

Item 6. EXHIBITS

| Exhibit No. | Description |
|---|---|
| 31.1 | Certification of Bruno Guilmart, Chief Executive Officer of Kulicke and Soffa Industries, Inc., pursuant to Rule 13a-14(a) or Rule15d-14(a). |
| 31.2 | Certification of Jonathan Chou, Chief Financial Officer of Kulicke and Soffa Industries, Inc., pursuant to Rule 13a-14(a) or Rule 15d-14(a). |
| 32.1 | Certification of Bruno Guilmart, Chief Executive Officer of Kulicke and Soffa Industries, Inc., pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 32.2 | Certification of Jonathan Chou, Chief Financial Officer of Kulicke and Soffa Industries, Inc., pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 101.INS | XBRL Instance Document. |
| 101.SCH | XBRL Taxonomy Extension Schema Document. |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document. |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document. |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document. |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document. |

## 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, 2012 | By: | /s/ JONATHAN CHOU |

Jonathan Chou
Senior Vice President, Chief Financial Officer and Principal Accounting Officer