KULICKE & SOFFA INDUSTRIES INC
Form 10-Q
August 10, 2011

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 July 2, 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 o

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 o

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 August 5, 2011, there were 72,699,168 shares of the Registrant's Common Stock, no par value, outstanding.

KULICKE AND SOFFA INDUSTRIES, INC.

FORM 10 – Q

July 2, 2011

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PART I. - FINANCIAL INFORMATION
Item 1. Financial Statements

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

	As of	
	July 2, 2011	October 2, 2010
ASSETS		
Current assets:		
Cash and cash equivalents	$329,281	$ 178,112
Restricted cash	-	237
Short-term investments	6,253	2,985
Accounts and notes receivable, net of allowance for doubtful accounts of $705 and $980, respectively	215,410	196,035
Inventories, net	86,290	73,893
Prepaid expenses and other current assets	16,535	15,985
Deferred income taxes	5,461	5,443
Total current assets	659,230	472,690
Property, plant and equipment, net	29,782	30,059
Goodwill	39,196	26,698
Intangible assets	31,953	39,111
Other assets	12,049	11,611
TOTAL ASSETS	$772,210	$ 580,169
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt	$103,483	$ -
Accounts payable	97,011	82,353
Accrued expenses and other current liabilities	52,244	41,498
Earnout agreement payable (Note 4)	12,498	-
Income taxes payable	-	1,279
Total current liabilities	265,236	125,130
Long-term debt	-	98,475
Deferred income taxes	28,523	20,355
Other liabilities	13,123	13,729
TOTAL LIABILITIES	306,882	257,689
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 77,394 and 75,429, respectively;		

outstanding 72,440 and 70,475 shares, respectively	439,618	423,715
Treasury stock, at cost, 4,954 shares	(46,356)	(46,356)
Accumulated income (deficit)	70,028	(55,670)
Accumulated other comprehensive income	2,038	791
TOTAL SHAREHOLDERS' EQUITY	465,328	322,480
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$772,210	$ 580,169

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

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

	Three months ended		Nine months ended	
	July 2, 2011	July 3, 2010	July 2, 2011	July 3, 2010
Net revenue	$294,438	$221,254	$650,030	$503,507
Cost of sales	160,344	122,070	344,867	280,178
Gross profit	134,094	99,184	305,163	223,329
Selling, general and administrative	35,846	34,446	109,479	90,142
Research and development	16,595	14,686	48,314	41,827
Operating expenses	52,441	49,132	157,793	131,969
Income from operations	81,653	50,052	147,370	91,360
Interest income	185	104	445	290
Interest expense	(2,118)	(2,153)	(6,153)	(6,341)
Income from operations before income tax	79,720	48,003	141,662	85,309
Provision (benefit) for income taxes	9,006	(1,080)	15,964	(772)
Net income	$70,714	$49,083	$125,698	$86,081
Net income per share:				
Basic	$0.97	$0.69	$1.75	$1.22
Diluted	$0.95	$0.65	$1.71	$1.15
Weighted average shares outstanding:				
Basic	72,199	70,131	71,531	69,873
Diluted	74,130	74,960	73,082	74,494

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

	Nine months ended	
	July 2, 2011	July 3, 2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$125,698	$86,081
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	13,271	13,258
Amortization of debt discount and debt issuance costs	5,429	5,226
Equity-based compensation and employee benefits	6,192	5,422
Provision for doubtful accounts	(272)	(481)
Provision for inventory valuation	4,357	797
Deferred taxes	9,738	(2,237)
Changes in operating assets and liabilities, net of businesses acquired or sold:		
Accounts and notes receivable	(19,470)	(55,686)
Inventory	(16,982)	(28,179)
Prepaid expenses and other current assets	(101)	(2,597)
Accounts payable, accrued expenses and other current liabilities	25,857	49,263
Income taxes payable	(1,261)	(721)
Other, net	(369)	(2,169)
Net cash provided by continuing operations	152,087	67,977
Net cash used in discontinued operations	(1,547)	(1,488)
Net cash provided by operating activities	150,540	66,489
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property, plant and equipment	(5,815)	(3,371)
Proceeds from sale of property, plant and equipment	-	3,958
Purchases of investments classified as available-for-sale	(3,479)	-
Changes in restricted cash, net	237	55
Net cash provided by (used in) continuing operations	(9,057)	642
Net cash used in discontinued operations	-	(1,838)
Net cash used in investing activities	(9,057)	(1,196)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from exercise of common stock options	8,836	1,872
Payments on borrowings	-	(48,964)
Net costs from sale of common stock	-	(29)
Net cash provided by (used in) financing activities	8,836	(47,121)
Effect of exchange rate changes on cash and cash equivalents	850	108
Changes in cash and cash equivalents	151,169	18,280
Cash and cash equivalents at beginning of period	178,112	144,560
Cash and cash equivalents at end of period	$329,281	$162,840
CASH PAID FOR:		
Interest	$963	$1,452

Income taxes	$8,030	$1,535

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 2, 2010, filed with the Securities and Exchange Commission, which includes Consolidated Balance Sheets as of October 2, 2010 and October 3, 2009, 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 2, 2010. 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 2011 quarters end on January 1, 2011, April 2, 2011, July 2, 2011 and October 1, 2011. Fiscal 2010 quarters ended on January 2, 2010, April 3, 2010, July 3, 2010 and October 2, 2010. 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. 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 July 2, 2011 and October 2, 2010 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 commonly 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 is consolidating certain of its other U.S.-based operations to Asia.

The following table reflects severance activity during the three and nine months ended July 2, 2011 and July 3, 2010:

	Three months ended		Nine months ended	
(in thousands)	July 2, 2011	July 3, 2010	July 2, 2011	July 3, 2010
Accrual for estimated severance and benefits, beginning of period	$3,153	$2,073	$2,395	$2,413
Provision for severance and benefits: Equipment segment (1)	275	619	1,961	787
Provision for severance and benefits: Expendable Tools segment (1)	19	427	481	784
Payment of severance and benefits	(783)	(447)	(2,173)	(1,312)
Accrual for estimated severance and benefits, end of period (2)	$2,664	$2,672	$2,664	$2,672

(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) The accrual for estimated severance as of July 2, 2011 and July 3, 2010 was included within accrued expenses and other current liabilities and other liabilities on the Consolidated Balance Sheets. In addition to these restructuring amounts, as of July 2, 2011, the Company had other non-restructuring 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 July 2, 2011 and October 2, 2010:

	As of	
(in thousands)	July 2, 2011	October 2, 2010
Short term investments, available-for-sale:		
Deposits maturing within one year (1)	$6,253	$ 2,985
	$6,253	$ 2,985
Inventories, net:		
Raw materials and supplies	$51,102	$ 41,693
Work in process	31,522	26,682
Finished goods	17,212	15,658
	99,836	84,033
Inventory reserves (2)	(13,546)	(10,140)
	$86,290	$ 73,893
Property, plant and equipment, net:		
Land	$2,086	$ 2,086
Buildings and building improvements	8,048	8,651
Leasehold improvements	15,032	12,916
Data processing equipment and software	23,465	22,280
Machinery, equipment, furniture and fixtures	39,762	37,007
	88,393	82,940
Accumulated depreciation	(58,611)	(52,881)
	$29,782	$ 30,059
Accrued expenses and other current liabilities:		
Wages and benefits	$17,865	$ 15,836
Accrued customer obligations (3)	14,540	8,918
Commissions and professional fees (4)	6,326	6,639
Severance (5)	4,010	2,947
Short-term facility accrual related to discontinued operations (Test)	1,576	1,734
Other	7,927	5,424
	$52,244	$ 41,498

(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 820, Fair Value Measurements and Disclosures ("ASC 820"). As of July 2, 2011 and October 2, 2010, 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 or nine months ended July 2, 2011 and July 3, 2010.

(2) Change primarily due to inventory reserves recorded which related to the Company's wedge bonder inventory in the U.S. and its wedge bonder factory transition to Asia.

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

(4) Balances as of July 2, 2011 and October 2, 2010 include $2.2 million and $0.9 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. An additional $0.2 million of liability classified stock compensation expenses was recorded in other liabilities related to the long term portion of his agreement (see Note 6) as of October 2, 2010. In addition, $0.4 million and $0.6 million were recorded within other liabilities related to the long term portion of his consulting agreement as of July 2, 2011 and October 2, 2010, respectively.

(5) Total severance payable within the next twelve months includes restructuring plan discussed in Note 2 and approximately $1.3 million of other severance not part of the Company's transition and consolidation of operations to Asia. In addition, $0.5 million was recorded within other liabilities related to the long term portion of severance payable.

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 2010 and no impairment charge was required.

The Company also tests for impairment between annual tests if a "triggering" event occurs that may have the effect of reducing the fair value of a reporting unit below its respective carrying value.

On October 3, 2008, the Company completed the acquisition of Orthodyne Electronics Corporation ("Orthodyne") and agreed to pay Orthodyne an additional amount in the future based upon the gross profit realized by the acquired business over a three year period from date of acquisition pursuant to an Earnout Agreement (the "Earnout"). As of July 2, 2011, the maximum potential payout under the Earnout was $30.0 million, and the Company has accrued $12.5 million as an adjustment to goodwill.

The following table reflects Goodwill as of July 2, 2011 and October 2, 2010:

	As of	
(in thousands)	July 2, 2011	October 2, 2010
Beginning of period, Goodwill	$ 26,698	$ 26,698
Increase to Goodwill for Earnout	12,498	-
End of period, Goodwill	$ 39,196	$ 26,698

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 July 2, 2011and October 2, 2010:

(dollar amounts in thousands)	As of July 2, 2011	As of October 2, 2010	Average estimated useful lives (in years)
Wedge bonder developed technology	$33,200	$ 33,200	7.0
Accumulated amortization	(13,043)	(9,486)	
Net wedge bonder developed technology	20,157	23,714	
Wedge bonder customer relationships	19,300	19,300	5.0
Accumulated amortization	(10,615)	(7,720)	
Net wedge bonder customer relationships	8,685	11,580	
Wedge bonder trade name	4,600	4,600	8.0
Accumulated amortization	(1,581)	(1,150)	
Net wedge bonder trade name	3,019	3,450	
Wedge bonder other intangible assets	2,500	2,500	1.9
Accumulated amortization	(2,408)	(2,133)	
Net wedge bonder other intangible assets	92	367	
Net intangible assets	$31,953	$ 39,111	

The following table reflects estimated annual amortization expense related to intangible assets as of July 2, 2011:

(in thousands)	
Remaining fiscal 2011	$ 2,386
Fiscal 2012	9,178
Fiscal 2013	9,178
Fiscal 2014	5,318
Fiscal 2015-2016	5,893
Total amortization expense	$ 31,953

NOTE 5: DEBT AND OTHER OBLIGATIONS

The following table reflects debt consisting of Convertible Subordinated Notes as of July 2, 2011 and October 2, 2010:

Rate	Payment date of each year	Conversion price	Maturity date	As of July 2, 2011 (in thousands)	As of October 2, 2010 (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			(6,517)	(11,525)
				$ 103,483	$ 98,475

The following table reflects the estimated fair value of the Company's Convertible Subordinated Notes as of July 2, 2011 and October 2, 2010:

Description	Fair value as of (1) July 2, 2011 (in thousands)	Fair value as of (1) October 2, 2010 (in thousands)
0.875% Convertible Subordinated Notes	$ 116,683	$ 102,025

(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 and nine months ended July 2, 2011 and July 3, 2010:

(in thousands)	Three months ended July 2, 2011	Three months ended July 3, 2010	Nine months ended July 2, 2011	Nine months ended July 3, 2010
Amortization expense related to issue costs	$ 142	$ 194	$ 421	$ 582

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 satisfy any conversion of 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 will not be redeemable at the Company's option. Holders of the 0.875% Convertible Subordinated Notes will 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 relating to the Convertible Subordinated Notes and will be accelerated upon bankruptcy, insolvency, appointment of a receiver and similar events with respect to the Company.

The Company adopted ASC 470.20, Debt, Debt with Conversion Options, which requires that issuers of convertible debt that may be settled in cash upon conversion record the liability and equity components of the convertible debt separately. The liability component of the Company’s 0.875% Convertible Subordinated Notes will continue to be 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, 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. The Company did not have any borrowings under the Facilities Agreement as of or during the nine months ended July 2, 2011.

The Facilities Agreement and related Debenture dated April 4, 2011 replace 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.

NOTE 6: SHAREHOLDERS’ EQUITY AND EMPLOYEE BENEFIT PLANS

Common Stock

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 rather than shares of the Company’s common 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 401(k) retirement income plan which were made in the form of issued and contributed shares of Company common stock or cash during the three and nine months ended July 2, 2011 and July 3, 2010:

	Three months ended		Nine months ended	
(in thousands)	July 2, 2011	July 3, 2010	July 2, 2011	July 3, 2010
Number of common shares	n/a	53	42	153
Fair value based upon market price at date of distribution	n/a	$ 402	$ 279	$ 1,000
Cash	$ 651	n/a	1,057	n/a

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Accumulated Other Comprehensive Income

The following table reflects accumulated other comprehensive income reflected on the Consolidated Balance Sheets as of July 2, 2011 and October 2, 2010:

	As of	
(in thousands)	July 2, 2011	October 2, 2010
Gain from foreign currency translation adjustments	$ 3,161	$ 1,767
Unrecognized actuarial net loss, Switzerland pension plan, net of tax	(735)	(588)
Switzerland pension plan curtailment	(388)	(388)
Accumulated other comprehensive income	$ 2,038	$ 791

The following table reflects the components of comprehensive income for the three and nine months ended July 2, 2011 and July 3, 2010:

	Three months ended		Nine months ended	
	July 2, 2011	July 3, 2010	July 2, 2011	July 3, 2010
Net income	$70,714	$49,083	$125,698	$86,081
Gain (loss) from foreign currency translation adjustments	500	493	1,394	(162)
Unrecognized actuarial net gain (loss), net of tax				
Switzerland pension plan, net of tax	(105)	(3)	(147)	6
Other comprehensive income (loss)	395	490	1,247	(156)
Comprehensive income	$71,109	$49,573	$126,945	$85,925

Equity-Based Compensation

As of July 2, 2011, the Company had seven equity-based employee compensation plans (the “Employee Plan”) and three director compensation plans (the “Director Plans”) (collectively, the “Plans”). Under these Plans, market-based share awards (collectively, “market-based restricted stock”), time-based share awards (collectively, “time-based restricted stock”), stock options, performance-based share awards (collectively, “performance-based restricted stock”), 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 July 2, 2011, the Company’s one active plan, the 2009 Equity Plan, had 6.1 million shares of common stock available for grant to its employees and directors.

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

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

- 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 and nine months ended July 2, 2011 and July 3, 2010 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 following table reflects restricted stock, stock options and common stock granted during the three and nine months ended July 2, 2011 and July 3, 2010:

	Three months ended		Nine months ended	
(number of shares in thousands)	July 2, 2011	July 3, 2010	July 2, 2011	July 3, 2010
Market-based restricted stock	-	-	368	398
Time-based restricted stock	-	-	708	784
Stock options	-	10	-	36
Common stock	20	24	74	89
Equity-based compensation in shares	20	34	1,150	1,307

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 and nine months ended July 2, 2011 and July 3, 2010:

	Three months ended		Nine months ended	
(in thousands)	July 2, 2011	July 3, 2010	July 2, 2011	July 3, 2010
Cost of sales	$ 55	$ 44	$ 159	$ 140
Selling, general and administrative (1)	1,673	1,231	4,784	3,218
Research and development	340	334	970	1,064
Equity-based compensation expense	$ 2,068	$ 1,609	$ 5,913	$ 4,422

The following table reflects equity-based compensation expense, by type of award, for the three and nine months ended July 2, 2011 and July 3, 2010:

	Three months ended		Nine months ended	
(in thousands)	July 2, 2011	July 3, 2010	July 2, 2011	July 3, 2010
Market-based restricted stock (2)	$ 776	$ 271	$ 1,649	$ 659
Time-based restricted stock	932	464	3,054	1,521
Performance-based restricted stock (3)	165	586	600	1,324
Stock options	15	108	70	378
Common stock	180	180	540	540
Equity-based compensation expense	$ 2,068	$ 1,609	$ 5,913	$ 4,422

(1) Three and nine months ended July 2, 2011 selling, general and administrative expense includes $0.4 million and $1.0 million, respectively, related to the liability classified stock compensation expense for the retired former CEO. In connection with his retirement, deferred cash payments equal the difference, if any, between (i) the fair market value of the shares of common stock of the Company 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 the shares of common stock of the Company actually received by him pursuant to such awards. The deferred cash payments will be paid in July 2011 and February 2012, respectively. An accrual for estimated deferred cash payments measured at fair value as of July 2, 2011 and October 2, 2010 was included within accrued expenses and other current liabilities and other liabilities on the Consolidated Balance Sheets.
(2) Three and nine months ended July 2, 2011 includes $0.3 million and $0.8 million, respectively, related to the liability classified stock compensation expense for the retired former CEO.
(3) Three and nine months ended July 2, 2011 includes $0.1 million and $0.2 million, respectively, related to the liability classified stock compensation expense for the retired former CEO.

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 July 2, 2011 and July 3, 2010. 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 and nine months ended July 2, 2011 and July 3, 2010:

	Three months ended			
	July 2, 2011		July 3, 2010	
(in thousands, except per share data)	Basic	Diluted	Basic	Diluted
NUMERATOR:				
Net income	$ 70,714	$ 70,714	$ 49,083	$ 49,083
Less: income applicable to participating securities	(394)	(394)	(523)	(523)
After-tax interest expense	-	n/a	-	118
Net income applicable to common shareholders	$ 70,320	$ 70,320	$ 48,560	$ 48,678
DENOMINATOR:				
Weighted average shares outstanding - Basic	72,199	72,199	70,131	70,131
Market-based restricted stock		736		463
Time-based restricted stock		836		357
Stock options		359		221
Performance-based restricted stock		-		101
1.000 % Convertible Subordinated Notes		n/a		3,687
Weighted average shares outstanding - Diluted (1)		74,130		74,960
EPS:				
Net income per share - Basic	$ 0.97	$ 0.97	$ 0.69	$ 0.69
Effect of dilutive shares		(0.02)		(0.04)
Net income per share - Diluted		$ 0.95		$ 0.65

(1) Three months ended July 2, 2011 and July 3, 2010 excludes 0.4 million and 0.5 million dilutive participating securities, respectively, as the income attributable to these shares was not included in EPS.

For the three months ended July 2, 2011 and July 3, 2010, 0.2 million and 1.5 million potentially dilutive shares related to out of the money stock options, respectively, were excluded from EPS.

	Nine months ended			
	July 2, 2011		July 3, 2010	
(in thousands, except per share data)	Basic	Diluted	Basic	Diluted
NUMERATOR:				
Net income	$ 125,698	$ 125,698	$ 86,081	$ 86,081
Less: income applicable to participating securities	(755)	(755)	(922)	(922)
After-tax interest expense	-	n/a	-	363
Net income applicable to common shareholders	$ 124,943	$ 124,943	$ 85,159	$ 85,522
DENOMINATOR:				
Weighted average shares outstanding - Basic	71,531	71,531	69,873	69,873
Market-based restricted stock		626		379
Time-based restricted stock		677		220
Stock options		248		173
Performance-based restricted stock		-		78
1.000 % Convertible Subordinated Notes		n/a		3,771
Weighted average shares outstanding - Diluted (1)		73,082		74,494
EPS:				
Net income per share - Basic	$ 1.75	$ 1.75	$ 1.22	$ 1.22
Effect of dilutive shares		(0.04)		(0.07)
Net income per share - Diluted		$ 1.71		$ 1.15

(1) Nine months ended July 2, 2011 and July 3, 2010 excludes 0.4 million dilutive participating securities, for both periods, as the income attributable to these shares was not included in EPS.

For the nine months ended July 2, 2011 and July 3, 2010, 0.5 million and 2.8 million potentially dilutive shares related to out of the money stock options, respectively, were excluded from EPS.

NOTE 8: INCOME TAXES

The following table reflects the provision (benefit) for income taxes and the effective tax rate for the nine months ended July 2, 2011 and July 3, 2010:

	Nine months ended	
(dollar amounts in thousands)	July 2, 2011	July 3, 2010
Income from continuing operations before taxes	$ 141,662	$ 85,309
Provision (benefit) for income taxes	15,964	(772)
Net income	$ 125,698	$ 86,081

Effective tax rate	11.3	%	-0.9	%

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For the nine months ended July 2, 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, 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 addition, during the second quarter of fiscal 2011, the Company finalized negotiations with a foreign tax jurisdiction which resulted in a decreased tax rate in that jurisdiction for a limited period of time.

For the nine months ended July 3, 2010, the effective income tax rate related to continuing operations differed from the federal statutory rate primarily due to: decreases in the valuation allowance, federal alternative minimum taxes, state income taxes, tax from foreign operations, impact of tax holidays, an increase in deferred taxes for un-remitted earnings and other U.S. current and deferred taxes. The decrease in valuation allowance includes a discrete income tax benefit recorded in the third quarter of fiscal 2010 for the reduction of the domestic valuation allowance based on a review of positive and negative evidence regarding the realization of these assets, including future projected domestic earnings.

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 and nine months ended July 2, 2011 and July 3, 2010:

	Three months ending		Nine months ending	
(in thousands)	July 2, 2011	July 3, 2010	July 2, 2011	July 3, 2010
Net revenue				
Equipment	$ 275,398	$ 202,185	$ 598,106	$ 450,135
Expendable Tools	19,040	19,069	51,924	53,372
Net revenue	294,438	221,254	650,030	503,507
Cost of sales				
Equipment	152,493	114,169	323,564	258,780
Expendable Tools	7,851	7,901	21,303	21,398
Cost of sales	160,344	122,070	344,867	280,178
Gross profit				
Equipment	122,905	88,016	274,542	191,355
Expendable Tools	11,189	11,168	30,621	31,974
Gross profit	134,094	99,184	305,163	223,329
Operating Expenses				
Equipment	45,557	41,248	136,663	109,546
Expendable Tools	6,884	7,884	21,130	22,423
Operating expenses	52,441	49,132	157,793	131,969
Income from operations				
Equipment	77,348	46,768	137,879	81,809
Expendable Tools	4,305	3,284	9,491	9,551
Income from operations	$ 81,653	$ 50,052	$ 147,370	$ 91,360

The following tables reflect assets by segment as of July 2, 2011 and October 2, 2010, capital expenditures for the nine months ended July 2, 2011 and July 3, 2010, and depreciation expense for the three and nine months ended July 2, 2011 and July 3, 2010:

	As of	
(in thousands)	July 2, 2011	October 2, 2010
Segment assets:		
Equipment	$ 746,266	$ 493,712
Expendable Tools	25,944	86,457
Total assets	$ 772,210	$ 580,169

	Nine months ended	
(in thousands)	July 2, 2011	July 3, 2010
Capital expenditures:		
Equipment	$ 2,973	$ 2,149
Expendable Tools	2,842	1,222
Total capital expenditures	$ 5,815	$ 3,371

	Three months ended		Nine months ended	
(in thousands)	July 2, 2011	July 3, 2010	July 2, 2011	July 3, 2010
Depreciation expense:				
Equipment	$ 1,459	$ 1,280	$ 4,441	$ 4,023
Expendable Tools	621	670	1,671	2,075

Total depreciation expense	$ 2,080	$ 1,950	$ 6,112	$ 6,098

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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 expenses.

The following table reflects the reserve for product warranty activity for the three and nine months ended July 2, 2011 and July 3, 2010:

	Three months ended		Nine months ended	
(in thousands)	July 2, 2011	July 3, 2010	July 2, 2011	July 3, 2010
Reserve for product warranty, beginning of period	$2,054	$1,670	$2,657	$1,003
Provision for product warranty	1,353	1,105	2,291	2,640
Product warranty costs paid	(808)	(572)	(2,349)	(1,440)
Reserve for product warranty, end of period	$2,599	$2,203	$2,599	$2,203

Other Commitments and Contingencies

The following table reflects operating lease obligations not reflected on the Consolidated Balance Sheet as of July 2, 2011:

	Payments due by fiscal year					
(in thousands)	Total	2011	2012	2013	2014	2015 and thereafter
Operating lease obligations (1)	$ 33,334	$ 2,635	$ 9,186	$ 7,082	$ 2,744	$ 11,687

(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 nine months ended and as of July 2, 2011 and July 3, 2010:

	Nine months ended			
	July 2, 2011		July 3, 2010	
Customer net revenue as a percentage of net revenue				
Advanced Semiconductor Engineering	23.1	%	28.5	%

	As of			
	July 2, 2011		July 3, 2010	
Customer accounts receivable as a percentage of total accounts receivable				
Siliconware Precision Industries Co., Ltd.	11.0	%	13.4	%
Advanced Semiconductor Engineering	*		13.8	%
Haoseng Industrial Co. Ltd.	*		10.0	%

* Represents less than 10% of total accounts receivable.

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

Forward-Looking Statements

In addition to historical information, this filing contains statements relating to future events or our future results. These statements are forward-looking statements within the meaning of 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, statements that relate to increasing, continuing or strengthening demand for our products, and our future revenue and 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 2, 2010 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

Introduction

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 (“OSAT”), 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 operations, moving manufacturing 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 both internal cyclical dynamics as well as 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. 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 reflects the industry's cyclical dynamics and is therefore highly volatile. The financial performance of this segment is affected, both positively and negatively, by semiconductor manufacturers' expectations of capacity requirements and their plans for upgrading their production capabilities. Volatility of this segment is further influenced by the relative mix of IDM and OSAT customers in any period, since changes in the mix of sales to IDMs and OSATs 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. Our visibility into future demand, beyond our fiscal fourth quarter, is generally limited and forecasting is difficult.

To limit potential adverse cyclical and macroeconomic effects on our financial position, we have de-leveraged and strengthened our balance sheet. During fiscal 2010, we reduced our debt by $49.0 million, and as of July 2, 2011, our total cash, cash equivalents and investments exceeded the face value of our total debt by $225.5 million, a $154.2 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 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 their respective 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 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.

Our leadership in the industry's use of copper wire, rather than gold, for the wire 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 been 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 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 configured machines. This 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 captured substantial market share in LED assembly equipment. We expect the next wave of growth in the LED market to be high brightness ("HB") LED for general lighting, and we believe we are well positioned for this trend.

Additionally, we are taking advantage and leveraging the technology between our ball bonder and wedge bonder platforms. We are developing the next generation platform for our power semiconductor wedge bonder. In addition, we intend to initiate design of our next hybrid wedge bonder. In both cases, we are making a conscious effort to develop commonality of subsystems, or 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. We offer a die bonding platform, our state of the art iStackPS die bonder for advanced stacked die applications. iStackPS offers best-in-class throughput and accuracy, and we believe iStackPS is positioned to lead the market for its targeted applications.

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 tables reflect net revenue by business segment for the three and nine months ended July 2, 2011 and July 3, 2010, respectively:

	Three months ended							
	July 2, 2011				July 3, 2010			
(dollar amounts in thousands)	Net Revenues		% of Total Revenue		Net Revenues		% of Total Revenue	
Equipment	$	275,398	93.5	%	$	202,185	91.4	%
Expendable Tools		19,040	6.5	%		19,069	8.6	%
	$	294,438	100.0	%	$	221,254	100.0	%

	Nine months ended							
	July 2, 2011				July 3, 2010			
(dollar amounts in thousands)	Net Revenues		% of Total Revenue		Net Revenues		% of Total Revenue	
Equipment	$	598,106	92.0	%	$	450,135	89.4	%
Expendable Tools		51,924	8.0	%		53,372	10.6	%
	$	650,030	100.0	%	$	503,507	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 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 ConnX LED PS and our ConnX VLED PS. Targeted for large bondable area applications, the Power Series includes our IConnPS LA and ConnXPS LA. In November 2010, we introduced the IConnPS ProCu which offers 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.

Heavy Wire Wedge Bonders

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

Our portfolio of wedge bonding products includes:

- The 3600Plus: high speed, high accuracy wire bonders designed for power modules, automotive packages and other heavy wire multi-chip module applications.
- The 3700Plus: wire bonders designed for hybrid and automotive modules using thin aluminum wire.
- The 7200Plus: dual head wedge bonder designed specifically for power semiconductor applications.
- The 7200HD: wedge bonder designed for smaller power packages using either aluminum wire or ribbon.
- The 7600HD: wedge bonder targeted for small power packages.

While wedge bonding traditionally utilizes aluminum wire, all of our wedge bonders are also available modified to bond aluminum ribbon using our proprietary PowerRibbon® process. 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 and nine months ended July 2, 2011 and July 3, 2010:

	Three months ended			
(dollar amounts in thousands)	July 2, 2011	June 3, 2010	$ Change	% Change
Net revenue	$ 294,438	$ 221,254	$ 73,184	33.1 %
Cost of sales	160,344	122,070	38,274	31.4 %
Gross profit	134,094	99,184	34,910	35.2 %
Selling, general and administrative	35,846	34,446	1,400	4.1 %
Research and development	16,595	14,686	1,909	13.0 %
Operating expenses	52,441	49,132	3,309	6.7 %
Income from operations	$ 81,653	$ 50,052	$ 31,601	63.1 %

	Nine months ended			
(dollar amounts in thousands)	July 2, 2011	June 3, 2010	$ Change	% Change
Net revenue	$ 650,030	$ 503,507	$ 146,523	29.1 %
Cost of sales	344,867	280,178	64,689	23.1 %
Gross profit	305,163	223,329	81,834	36.6 %
Selling, general and administrative	109,479	90,142	19,337	21.5 %
Research and development	48,314	41,827	6,487	15.5 %
Operating expenses	157,793	131,969	25,824	19.6 %
Income from operations	$ 147,370	$ 91,360	$ 56,010	61.3 %

Net Revenue

Approximately 98.5% and 99.1% of our net revenue for the three months ended July 2, 2011 and July 3, 2010, respectively, was for shipments to customer locations outside of the United States, primarily in the Asia/Pacific region, and we expect sales outside of the United States to continue to represent a substantial majority of our future revenue. Likewise, approximately 98.1% and 98.6% of our net revenue for the nine months ended July 2, 2011 and July 3, 2010, respectively, was for shipments to customer locations outside of the United States.

The following table reflects net revenue by business segment for the three and nine months ended July 2, 2011 and July 3, 2010:

	Three months ended			
(dollar amounts in thousands)	July 2, 2011	July 3, 2010	$ Change	% Change
Equipment	$ 275,398	$ 202,185	$ 73,213	36.2 %
Expendable Tools	19,040	19,069	(29)	-0.2 %
	$ 294,438	$ 221,254	$ 73,184	33.1 %

	Nine months ended			
(dollar amounts in thousands)	July 2, 2011	July 3, 2010	$ Change	% Change
Equipment	$ 598,106	$ 450,135	$ 147,971	32.9 %
Expendable Tools	51,924	53,372	(1,448)	-2.7 %
	$ 650,030	$ 503,507	$ 146,523	29.1 %

Equipment

The following table reflects the components of Equipment net revenue change between the three and nine months ended July 2, 2011 and July 3, 2010:

	July 2, 2011 vs. July 3, 2010					
	Three months ended			Nine months ended		
(in thousands)	Price	Volume	$ Change	Price	Volume	$ Change
Equipment	$ 2,887	$ 70,326	$ 73,213	$ 15,229	$ 132,742	$ 147,971

For the three and nine months ended July 2, 2011, higher equipment net revenue as compared to the prior year periods was primarily due to the favorable impact of both volume and pricing for many of our equipment product lines, but mainly our ball and wedge bonders. The favorable ball bonder pricing and volume was due to the introduction of IConn ProCu and our large bondable area products in the first quarter of fiscal 2011. In addition, our wedge bonders had significant volume increases during both the three and nine months ended July 2, 2011, as well as favorable customer mix for the third quarter of fiscal 2011. The wedge bonder volume increase was due to significant demand from the power semiconductor segment along with the hybrid and automotive markets.

Expendable Tools

Expendable Tools net revenue declined slightly for both the three and nine months ended July 2, 2011 as compared to the three and nine months ended July 3, 2010. The decrease was primarily due to lower volumes for our non-wedge bonder tools products.

Gross Profit

The following table reflects gross profit by business segment for the three and nine months ended July 2, 2011 and July 3, 2010:

	Three months ended			
(dollar amounts in thousands)	July 2, 2011	July 3, 2010	$ Change	% Change
Equipment	$ 122,905	$ 88,016	$ 34,889	39.6 %
Expendable Tools	11,189	11,168	21	0.2 %
	$ 134,094	$ 99,184	$ 34,910	35.2 %

	Nine months ended			
(dollar amounts in thousands)	July 2, 2011	July 3, 2010	$ Change	% Change
Equipment	$ 274,542	$ 191,355	$ 83,187	43.5 %
Expendable Tools	30,621	31,974	(1,353)	-4.2 %
	$ 305,163	$ 223,329	$ 81,834	36.6 %

The following table reflects gross profit as a percentage of net revenue by business segment for the three and nine months ended July 2, 2011 and July 3, 2010.

	Three months ended		
	July 2, 2011	July 3, 2010	Basis Point Change
Equipment	44.6 %	43.5 %	110.00
Expendable Tools	58.8 %	58.6 %	20.00
	45.5 %	44.8 %	70.00

	Nine months ended		
	July 2, 2011	July 3, 2010	Basis Point Change
Equipment	45.9 %	42.5 %	340.00
Expendable Tools	59.0 %	59.9 %	(90.00)
	46.9 %	44.4 %	250.00

Equipment

The following table reflects the components of Equipment gross profit change between the three and nine months ended July 2, 2011 and July 3, 2010:

	July 2, 2011 vs. July 3, 2010							
	Three months ended				Nine months ended			
(in thousands)	Price	Cost	Volume	$ Change	Price	Cost	Volume	$ Change
Equipment	$ 2,887	$ (5,124)	$ 37,126	$ 34,889	$ 15,229	$ (7,285)	$ 75,243	$ 83,187

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For the three and nine months ended July 2, 2011, higher equipment gross profit as compared to the prior year periods was primarily due to the favorable impact of both volume and pricing for many of our equipment product lines, but mainly our ball and wedge bonders. The favorable ball bonder pricing and volume was due to the introduction of IConn ProCu and our large bondable area products in the first quarter of fiscal 2011. In addition, our wedge bonders had significant volume increases during both the three and nine months ended July 2, 2011, as well as favorable customer mix for the third quarter of fiscal 2011. The wedge bonder volume increase was due to significant demand from the power semiconductor segment along with the hybrid and automotive markets. Increased costs were mainly attributable to our wedge bonders as we transitioned manufacturing to Asia, and manufactured wedge bonders in both our U.S. and Asia facilities to support the increased demand. In addition, we recorded inventory reserves related to our wedge bonder inventory in the U.S. during the three months ended July 2, 2011 due to our factory transition to Asia.

Expendable Tools

Expendable Tools gross profit was unchanged for the three months ended July 2, 2011 as compared to the prior year period; however, for the nine months ended July 2, 2011, gross profit decreased slightly primarily due to lower volumes for our non-wedge bonder tools products.

Operating Expenses

The following tables reflect operating expenses as a percentage of net revenue:

	Three months ended					
	July 2, 2011		July 3, 2010		Basis Point Change	
Selling, general and administrative	12.2	%	15.6	%	(340.0	)
Research and development	5.6	%	6.6	%	(100.0	)
Total operating expenses	17.8	%	22.2	%	(440.0	)

	Nine months ended					
	July 2, 2011		July 3, 2010		Basis Point Change	
Selling, general and administrative	16.8	%	17.9	%	(110.0	)
Research and development	7.4	%	8.3	%	(90.0	)
Total operating expenses	24.3	%	26.2	%	(190.0	)

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

SG&A increased $1.4 million for the three months ended July 2, 2011 as compared to the same period last year primarily due to higher incentive compensation expense driven by higher net income for the current fiscal quarter.

SG&A increased $19.3 million during the nine months ended July 2, 2011 as compared to the same period a year ago primarily due to:

- $6.4 million higher incentive compensation expense driven by higher net income for the current fiscal year;
- $5.0 million increase in sales commissions due to higher net revenue for the current fiscal year;
- $2.9 million higher severance expense primarily related to corporate transitions; and
- $2.1 million higher amortization expense attributed to equipment sent to customers for demonstration and evaluation.

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Research and Development ("R&D")

R&D expense increased $1.9 million and $6.5 million for the three and nine months ended July 2, 2011, respectively, as compared to the prior year period primarily due to increased staff-related merit compensation costs.

Income from Operations

The following tables reflect income from operations for the three and nine months ended July 2, 2011 and July 3, 2010:

	Three months ended			
(dollar amounts in thousands)	July 2, 2011	% of Net Revenue	July 3, 2010	% of Net Revenue
Equipment	$ 77,348	28.1 %	$ 46,768	23.1 %
Expendable Tools	4,305	22.6 %	3,284	17.2 %
Total	$ 81,653	27.7 %	$ 50,052	22.6 %

	Nine months ended			
(dollar amounts in thousands)	July 2, 2011	% of Net Revenue	July 3, 2010	% of Net Revenue
Equipment	$ 137,879	23.1 %	$ 81,809	18.2 %
Expendable Tools	9,491	18.3 %	9,551	17.9 %
Total	$ 147,370	22.7 %	$ 91,360	18.1 %

Equipment

For the three and nine months ended July 2, 2011, higher equipment income from operations as compared to the prior year periods was primarily due to the favorable impact of both volume and pricing for many of our equipment product lines, but mainly our ball and wedge bonders. The favorable ball bonder pricing and volume was due to the introduction of IConn ProCu and our large bondable area products in the first quarter of fiscal 2011. In addition, our wedge bonders had significant volume increases during both the three and nine months ended July 2, 2011, as well as favorable customer mix for the third quarter of fiscal 2011. The wedge bonder volume increase was due to significant demand from the power semiconductor segment along with the hybrid and automotive markets. Increased costs were mainly attributable to our wedge bonders as we transitioned manufacturing to Asia, and manufactured wedge bonders in both our U.S. and Asia facilities to support the increased demand. In addition, we recorded inventory reserves related to our wedge bonder inventory in the U.S. during the three months ended July 2, 2011 due to our factory transition to Asia.

Expendable Tools

Expendable Tools income from operations was higher for the three months ended July 2, 2011 as compared to the prior year period primarily due to lower prior year factory transition costs as well as lower operating expenses attributable to this business. For the nine months ended July 2, 2011, income from operations for Expendable Tools decreased slightly primarily due to lower volumes for our non-wedge bonder tools products.

Interest Income and Expense

The following table reflects interest income and interest expense for the three and nine months ended July 2, 2011 and July 3, 2010:

	Three months ended			
(dollar amounts in thousands)	July 2, 2011	July 3, 2010	$ Change	% Change
Interest income	$ 185	$ 104	$ 81	77.9 %
Interest expense: cash	(241)	(385)	144	37.4 %
Interest expense: non-cash	(1,877)	(1,768)	(109)	-6.2 %

	Nine months ended			
(dollar amounts in thousands)	July 2, 2011	July 3, 2010	$ Change	% Change
Interest income	$ 445	$ 290	$ 155	53.4 %
Interest expense: cash	(724)	(1,106)	382	34.5 %
Interest expense: non-cash	(5,429)	(5,235)	(194)	-3.7 %

Interest income for both the three and nine months ended July 3, 2011 was higher as compared to the prior year periods due to higher invested cash balances.

The decrease in interest expense for both the three and nine months ended July 2, 2011 as compared to the prior year periods was attributable to the retirement of our 1.0% Convertible Subordinated Notes in June 2010.

Provision (Benefit) for Income Taxes

The following table reflects the provision (benefit) for income taxes and the effective tax rate from continuing operations for the nine months ended July 2, 2011 and July 3, 2010:

	Nine months ended	
(in thousands)	July 2, 2011	July 3, 2010
Income from operations before taxes	$ 141,662	$ 85,309
Provision (benefit) for income taxes	15,964	(772)
Net income	$ 125,698	$ 86,081
Effective tax rate	11.3 %	-0.9 %

For the nine months ended July 2, 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, 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 addition, during the second quarter of fiscal 2011, we finalized negotiations with a foreign tax jurisdiction which resulted in a decreased tax rate in that jurisdiction for a limited period of time.

For the nine months ended July 3, 2010, the effective income tax rate differed from the federal statutory rate primarily due to: decreases in the valuation allowance, federal alternative minimum taxes, state income taxes, tax from foreign operations, the impact of tax holidays, an increase in deferred taxes for un-remitted earnings and 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 July 2, 2011 and October 2, 2010:

	As of		
(dollar amounts in thousands)	July 2, 2011	October 2, 2010	$ Change
Cash and cash equivalents	$ 329,281	$ 178,112	$ 151,169
Restricted cash (1)	-	237	(237)
Short-term investments	6,253	2,985	3,268
Total cash and investments	$ 335,534	$ 181,334	$ 154,200
Percentage of total assets	43.5 %	31.3 %	

(1) Related to customs requirements in Malaysia.

The following table reflects summary Consolidated Statement of Cash Flow information for the nine months ended July 2, 2011 and July 3, 2010:

	Nine months ended	
(in thousands)	July 2, 2011	July 3, 2010
Net cash provided by operating activities	$ 152,087	$ 67,977
Net cash used in discontinued operations	(1,547)	(1,488)
Net cash provided by operations	150,540	66,489
Net cash provided by (used in) investing activities, continuing operations	(9,057)	642
Net cash used in investing activities, discontinued operations	-	(1,838)
Net cash used in investing activities	(9,057)	(1,196)
Net cash provided by (used in) financing activities	8,836	(47,121)
Effect of exchange rate on cash and cash equivalents	850	108
Changes in cash and cash equivalents	151,169	18,280
Cash and cash equivalents, beginning of period	178,112	144,560
Total cash and investments	$ 329,281	$ 162,840

Nine months ended July 2, 2011

Continuing Operations

Net cash provided by operating activities was primarily the result of net income of $125.7 million plus non-cash adjustments of $38.7 million. Offsetting cash provided by net income were working capital changes of $12.3 million driven by net increases in accounts receivable and inventories which were partially offset by net increases in accounts payable and accrued expenses.

Net cash used in investing activities was related to the expansion of our manufacturing operations and infrastructure in Asia and purchases of short term investments.

Net cash provided by financing activities represented proceeds from the exercise of common stock options.

Discontinued Operations

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

Nine months ended July 3, 2010

Continuing Operations

Net cash provided by operating activities was primarily the result of $86.1 million net income plus $22.0 million of non-cash adjustments. Offsetting cash provided by net income were working capital changes of $40.0 million driven by net increases in accounts receivable and inventory offset by increases in accounts payable and accrued expenses.

Net cash provided by investing activities was primarily the result of the sale of our building in Israel for $4.0 million partially offset by $3.4 million of capital expenditures.

Net cash used in financing activities of $47.1 million was primarily for the redemption of our 1.0% Convertible Subordinated Notes that matured in June 2010.

Discontinued Operations

Net cash used in discontinued operations related to facility payments for our former Test business.

Net cash used in investing activities of discontinued operations was the result of settlement of remaining liabilities, related to working capital adjustments, in connection with the sale of our Wire business.

Fiscal 2011 Liquidity and Capital Resource Outlook

We expect our remaining fiscal 2011 capital expenditures to be $7.0 to $8.0 million. Expenditures are anticipated to be primarily used for R&D projects and the expansion of our manufacturing operations infrastructure in Asia.

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.

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 July 2, 2011:

Description	Maturity Date	Par Value	Fair Value as of July 2, 2011 (1)
		(in thousands)	
0.875% Convertible Subordinated Notes (2)	June 1, 2012	$ 110,000	$ 116,683

(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 July 2, 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.

Other Obligations and Contingent Payments

The following table reflects obligations and contingent payments under various arrangements as of July 2, 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:						
Earnout agreement payable (2)	12,498	12,498				
Pension plan obligations	7,767					$ 7,767
Severance	4,460	4,010	$ 450			
Facility accrual related to discontinued operations (Test)	1,745	1,576	169			
Obligations related to Chief Executive Officer transition (3)	2,862	2,488	374			
Operating lease retirement obligations	2,294	224	948	$ 366	$ 756	
Long-term income taxes payable	1,794				1,794	
Total Obligations and Contingent Payments reflected on the Consolidated Financial Statements	$ 143,420	$ 130,796	$ 1,941	$ 366	$ 2,550	$ 7,767
Contractual Obligations:						
Inventory purchase obligations (4)	$ 124,641	$ 124,641				
Operating lease obligations (5)	33,334	9,696	$ 11,279	$ 4,756	$ 7,603	
Cash paid for interest	963	963				
Total Obligations and Contingent Payments not reflected on the Consolidated Financial Statements	$ 158,938	$ 135,300	$ 11,279	$ 4,756	$ 7,603	$ -

(1) Does not reflect debt discount of $6.5 million related to our 0.875% Convertible Subordinated Notes.
(2) On October 3, 2008, we completed the acquisition of Orthodyne Electronics Corporation ("Orthodyne") and agreed to pay Orthodyne an additional amount in the future based upon the gross profit realized by the acquired business over a three year period from date of acquisition pursuant to an Earnout Agreement (the "Earnout"). As of July 2, 2011, the maximum potential payout under the Earnout was $30.0 million, and we have accrued $12.5 million as an adjustment to goodwill.
(3) 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, 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. The deferred cash payments will be paid in July 2011 and February 2012, respectively.

(4) 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.
(5) 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, 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. We did not have any borrowings under the Facilities Agreement as of or during the nine months ended July 2, 2011.

The Facilities Agreement and related Debenture dated April 4, 2011 replace 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.

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

As of July 2, 2011, we held $6.3 million of available-for-sale investments which subject us to interest rate risk. Our available-for-sale securities consist of fixed income investments (such as corporate bonds, commercial paper, time deposits and U.S. Treasury and Agency securities, or mutual funds that invest in these instruments). 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.

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.

Based on our overall currency rate exposure as of July 2, 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 $4.0 to $5.0 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.

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 July 2, 2011. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that, as of July 2, 2011 our disclosure controls and procedures were effective in providing reasonable assurance the information required to be disclosed by us in reports filed under the Securities Exchange Act of 1934, as amended, is (i) recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms and (ii) accumulated and communicated to our management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding disclosure.

PART II OTHER INFORMATION

Item 1A. RISK FACTORS

CERTAIN RISKS RELATED TO OUR BUSINESS

Risks related to our business are detailed in our Annual Report on Form 10-K for the year ended October 2, 2010 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.

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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: August 10, 2011

By: /s/ JONATHAN CHOU
Jonathan Chou
Senior Vice President and Chief Financial Officer
(Chief Financial Officer and Principal Accounting Officer)