KULICKE & SOFFA INDUSTRIES INC
Form 10-K
November 17, 2016
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K

ý ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended October 1, 2016
OR
¨TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to .

Commission File No. 0-121

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

PENNSYLVANIA	23-1498399
(State or other jurisdiction of incorporation)	(IRS Employer Identification No.)
23A Serangoon North, Avenue 5, #01-01 K&S Corporate Headquarters, Singapore	554369
(Address of principal executive offices)	(Zip Code)

(215) 784-6000
(Registrants telephone number, including area code)

N/A
(Former name, former address and former fiscal year, if changed since last report)

Securities registered pursuant to Section 12(b) of the Act:

None
Securities registered pursuant to Section 12(g) of the Act:

COMMON STOCK, WITHOUT PAR VALUE
(Title of each class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes ý
No ¨
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes ¨ No ý
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 ý No ¨

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

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

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

As of April 1, 2016, the aggregate market value of the registrant's common stock held by non-affiliates of the registrant was approximately $791.7 million based on the closing sale price as reported on The NASDAQ Global Market (reference is made to Part II, Item 5 herein for a statement of assumptions upon which this calculation is based).

As of November 15, 2016 there were 70,881,792 shares of the registrant's common stock, without par value, outstanding.

Documents Incorporated by Reference

Portions of the registrant's Proxy Statement for the 2017 Annual Meeting of Shareholders to be filed on or about January 27, 2017 are incorporated by reference into Part II, Item 5 and Part III, Items 10, 11, 12, 13 and 14 herein of this Report. Such Proxy Statement, except for the parts therein which have been specifically incorporated by reference, shall not be deemed “filed” for the purposes of this Report on Form 10-K.

Table of Contents

KULICKE AND SOFFA INDUSTRIES, INC.
2016 Annual Report on Form 10-K
October 1, 2016
Index

PART I

Forward-Looking Statements

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

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

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

Forward-looking statements are based on current expectations and involve risks and uncertainties. Our future results could differ significantly from those expressed or implied by our forward-looking statements. These risks and uncertainties include, without limitation, those described below and under the heading “Risk Factors” in this Annual Report on Form 10-K for the fiscal year ended October 1, 2016 (the “Annual Report”) and our other reports and registration statements filed from time to time with the Securities and Exchange Commission. This discussion should be read in conjunction with the Consolidated Financial Statements and Notes included in this report, as well as our audited financial statements included in the Annual Report.

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

Item 1. BUSINESS

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

We operate two main business segments, Equipment and Expendable Tools. Our goal is to be the technology leader and the most competitive supplier in terms of cost and performance in each of our major product lines. Accordingly, we invest in research and engineering projects intended to enhance our position as a leader in the semiconductor assembly technology. We also remain focused on our cost structure through continuing improvement and optimization of operations. 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.

K&S was incorporated in Pennsylvania in 1956. Our principal offices are located at 23A Serangoon North Avenue 5, #01-01, Singapore 554369 and our telephone number in the United States is (215) 784-6000. We maintain a website with the address www.kns.com. We are not including the information contained on our website as a part of, or incorporating it by reference into, this filing. We make available free of charge (other than an investor's own Internet access charges) on or through our website our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and any amendments to these reports, as soon as reasonably practicable after the material is electronically filed with or otherwise furnished to the Securities and Exchange Commission ("SEC"). Our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports are also available on the SEC website at www.sec.gov and at the SEC's Public Reference Room at 100 F Street, NE, Washington, DC 20549 or by calling the SEC at 1-800-SEC-0330.

Our year end for each of fiscal 2016, 2015 and 2014 was October 1, 2016, October 3, 2015, and September 27, 2014, respectively.

Business Environment

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

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

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

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

To limit potential adverse cyclical, seasonal and macroeconomic effects on our financial position, we have continued our efforts to maintain a strong balance sheet. As of October 1, 2016, our total cash and cash equivalents were $547.9 million, a $49.3 million increase from the prior fiscal year end. We believe this strong cash position will allow us to continue to invest in product development and pursue non-organic opportunities.

On August 14, 2014, the Company’s Board of Directors authorized a program (the "Program") to repurchase up to $100 million of the Company’s common stock on or before August 14, 2017. The Company has entered into a written trading plan under Rule 10b5-1 of the Exchange Act to facilitate repurchases under the Program. The Program may be suspended or discontinued at any time and is funded using the Company's available cash. Under the Program, shares may be repurchased through open market and/or privately negotiated transactions at prices deemed appropriate by management. The timing and amount of repurchase transactions under the Program depend on market conditions as well as corporate and regulatory considerations. During the year ended October 1, 2016, the Company repurchased a total of 1.4 million shares of common stock at a cost of $14.6 million under the Program. As of October 1, 2016, our remaining stock repurchase authorization under the Program was approximately $7.0 million.

2

Technology Leadership

We compete largely by offering our customers advanced equipment and expendable tools available for the interconnect processes. We believe our technology leadership contributes to the strong market positions of our ball bonder, wedge bonder and expendable tools products. To maintain our competitive advantage, we invest in product development activities designed to produce a stream of improvements to existing products and to deliver next-generation products. These investments often focus as much on improvements in the semiconductor assembly process as on specific pieces of assembly equipment or expendable tools. In order to generate these improvements, we often work in close collaboration with customers, end users, and other industry members. In addition to producing technical advances, these collaborative development efforts strengthen customer relationships and enhance our reputation as a technology leader and solutions provider.

In addition to gold, silver alloy wire and aluminum wire, our leadership in the industry's use of copper wire for the bonding process is an example of the benefits of our collaborative efforts. By working with customers, material suppliers, and other equipment suppliers, we have developed a series of robust, high-yielding production processes, which have made copper wire widely accepted and significantly reduced the cost of assembling an integrated circuit. Our leadership also has allowed us to maintain a competitive position in the latest generations of gold and copper ball bonders, which enables our customers to handle the leading technologies in terms of bond pad pitch, silicon with the latest node and complex wire bonding requirement. We continue to see demand for our large bondable area (“LA” and “ELA”) configured machines. Both LA and ELA options are now available on all of our Power Series[PS] (“PS”) models and allow our customers to gain added efficiencies and to reduce the cost of packaging.

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

Our leading technology for wedge bonder equipment uses ribbon or heavy wire for different applications such as power electronics, automotive and semiconductor applications. The advanced interconnect capabilities of PowerFusion[PS] improve the processing of high-density power packages, due to an expanded bondable area, wider leadframe capability, indexing accuracy and teach mode. In all cases, we are making a concerted effort to develop commonality of subsystems and design practices, in order to improve performance and design efficiencies. We believe this will benefit us as it will increase synergies between the various engineering product groups. Furthermore, we continually research adjacent market segments where our technologies could be used. Many of these initiatives are in the early stages of development and some have yielded results.

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

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

Table of Contents

With the acquisition of Assembléon, we broadened our advanced packaging solutions for mass reflow to include flip chip, wafer level packaging ("WLP"), fan-out wafer level packaging ("FOWLP"), advanced package-on-package, embedded die, and System-in-Package ("SiP"). The acquisition also enabled us to diversify our business while further expanding market reach into the automotive, LED lighting , medical and industrial segments with electronic assembly solutions.

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

Products and Services

The Company operates two segments: Equipment and Expendable Tools. The following table reflects net revenue by business segment for fiscal 2016, 2015, and 2014:

	Fiscal								
	2016			2015			2014		
(dollar amounts in thousands)	Net revenues	% of total net revenue		Net revenues	% of total net revenue		Net revenues	% of total net revenue	
Equipment	$562,463	89.7	%	$472,002	88.0	%	$503,049	88.5	%
Expendable Tools	64,729	10.3	%	64,469	12.0	%	65,520	11.5	%
	$627,192	100.0	%	$536,471	100.0	%	$568,569	100.0	%

See Note 15 to our Consolidated Financial Statements included in Item 8 of this report for our financial results by business segment.

Equipment Segment

In our equipment segment, we manufacture and sell a line of ball bonders, wafer level bonders, wedge bonders, advanced packaging and electronic assembly solutions that are sold to semiconductor device manufacturers, IDMs, OSATs, other electronics manufacturers and automotive electronics suppliers. Ball bonders are used to connect very fine wires, typically made of gold, silver alloy or copper, between the bond pads of the semiconductor device, or die, and the leads on its package. Wafer level bonders mechanically apply bumps to die, typically while still in the wafer format, for some variants of the flip chip assembly process. Wedge bonders use either aluminum wire or ribbon to perform the same function in packages that cannot use gold or copper wire because of either high electrical current requirements or other package reliability issues.

Table of Contents

Our principal Equipment segment products include:

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

(1) Power Series (“PS”)
(2) Standard version
(3) Large area version
(4) Extended large area version

5

Table of Contents

Business Unit	Product Name (1)	Typical Served Market
Electronics Assembly	iX Series	Advanced Surface Mount Technology ("SMT") applications requiring extremely high output of passive and active components
	iFlex Series	Advanced SMT applications requiring multi-lane or line balancing solutions for standard or oddform passive and active components

Ball Bonders

Automatic ball bonders represent the largest portion of our semiconductor equipment business. Our portfolio of ball bonding products includes:

- The IConn^{PS} PLUS series: high-performance ball bonders which can be configured for either gold or copper wire.
- The IConn^{PS} ProCu PLUS series: high-performance copper wire ball bonders for advanced wafer nodes at 28 nanometer and below.
- The IConn^{PS} MEM PLUS series: ball bonders designed for the assembly of stacked memory devices.
- The ConnX^{PS} PLUS series: cost-performance ball bonders which can be configured for either gold or copper wire.
- The ConnX^{PS} LED PLUS: ball bonders targeted specifically at the fast growing LED market.
- The AT Premier PLUS: ball bonders which utilize a modified wire bonding process to mechanically place bumps on devices, while still in a wafer format for variants of the flip chip assembly process. Typical applications include CMOS image sensors, SAW filters, MEMS and high brightness LEDs. These applications are commonly used in most, if not all, smartphones available today in the market.

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

Wedge Bonders

We design and manufacture wedge bonders for the power semiconductor and automotive power module markets. Wedge bonders may use either aluminum wire or aluminum ribbon to connect semiconductor chips in power packages, power hybrids and automotive modules for products such as motor control modules or inverters for hybrid cars. In addition, our wedge bonder products can be used in the high reliability interconnections of rechargeable batteries in hybrid and electric automotive applications.

Our portfolio of wedge bonding products includes:

- The 3600PLUS: high speed, high accuracy wire bonders designed for power modules, automotive packages and other heavy wire multi-chip module applications.
- The 3700PLUS: wire bonders designed for hybrid and automotive modules using thin aluminum wire.
- The PowerFusion^{PS} Semiconductor Wedge Bonders - Configurable in single, dual and multi-head configurations using aluminum wire and PowerRibbon®:

The PowerFusion^{PS} TL: designed for single row leadframe and high volume power semiconductor applications.

The PowerFusion^{PS} HL and PowerFusion^{PS} HLx: designed for advanced power semiconductor applications.

- The Asterion™ and Asterion™ EV: Hybrid wedge bonder designed for larger area, higher speed and accuracy wedge bonders for power modules, automotive packages, battery applications and other aluminum wedge interconnect applications.

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

Our PowerFusion^{PS} series are driven by new powerful direct-drive motion systems and expanded pattern recognition capabilities. PowerFusion^{PS} series improve the processing of high-density power packages, due to an expanded bondable area, wider leadframe capability, indexing accuracy and teach mode.

Table of Contents

Advanced Packaging

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

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

With the acquisition of Assembléon, we have broadened our advanced packaging product offering with solutions for flip chip, WLP, FOWLP, POP, embedded die, SiP and modules markets.

Electronics Assembly

With the added portfolio of Assembléon, we have diversified our business with SMT placement technologies in addition to wire bond technologies while further expanding market reach into the automotive, LED lighting, medical and industrial segments with Electronic Assembly solutions.

Other Equipment Products and Services

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

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

Expendable Tools Segment

We manufacture and sell a variety of expendable tools for a broad range of semiconductor packaging applications.

Our principal Expendable Tools segment products include:

- Capillaries: expendable tools used in ball bonders. Made of ceramic and other materials, a capillary guides the wire during the ball bonding process. Its features help control the bonding process. We design and build capillaries suitable for a broad range of applications, including for use on our competitors' equipment. In addition to capillaries used for gold wire bonding, we have developed capillaries for use with copper wire to achieve optimal performance in copper wire bonding.
- Dicing blades: expendable tools used by semiconductor manufacturers to cut silicon wafers into individual semiconductor die or to cut packaged semiconductor units into individual units.
- Bonding wedges: expendable tools used in heavy wire wedge bonders. Wedge tools are used for both wire and ribbon applications.

Table of Contents

Customers

Our major customers include IDMs and OSATs, industrial manufacturers and automotive electronics suppliers. Revenue from our customers may vary significantly from year-to-year based on their respective capital investments, operating expense budgets, and overall industry trends.

The following table reflects our top ten customers, based on net revenue, for each of the last three fiscal years:

	Fiscal 2016		Fiscal 2015		Fiscal 2014
1	Haoseng Industrial Co., Ltd. *#	1	Amkor Technology Inc.	1	Haoseng Industrial Co., Ltd. #
2	Siliconware Precision Industries Ltd.	2	Haoseng Industrial Co., Ltd. #	2	Advanced Semiconductor Engineering
3	Advanced Semiconductor Engineering	3	Skyworks Solutions Incorporated	3	Amkor Technology Inc.
4	STATS Chippac Ltd	4	ST Microelectronics	4	Skyworks Solutions Incorporated
5	Powertech Technology Inc.	5	Renesas Semiconductor	5	Powertech Technology Inc.
6	Amkor Technology Inc.	6	First Technology China, Ltd. #	6	Orient Semiconductor Electronics, Ltd.
7	Orient Semiconductor Electronics, Ltd.	7	Orient Semiconductor Electronics, Ltd.	7	Texas Instruments, Inc.
8	First Technology China, Ltd. #	8	Texas Instruments, Inc.	8	Greatek Electronics Inc.
9	Samsung	9	Rohm Integrated Systems	9	Super Power International Ltd #
10	Tesla Motors	10	Xinye Electronics. Co #	10	Freescale Semiconductor, Inc.

* Represents more than 10% of our net revenue for the applicable fiscal year.

Distributor of our products.

Approximately 92.4%, 91.2%, and 94.4% of our net revenue for fiscal 2016, 2015, and 2014, respectively, were for shipments to customer locations outside of the U.S., primarily in the Asia/Pacific region, and we expect sales outside of the U.S. to continue to represent the majority of our future revenue.

See Note 15 to our Consolidated Financial Statements included in Item 8 of this report for sales to customers by geographic location.

Sales and Customer Support

We believe long-term customer relationships are critical to our success, and comprehensive sales and customer support are an important means of establishing those relationships. To maintain these relationships, we primarily utilize our direct sales force, as well as distribution channels such as agents and distributors, depending on the product, region, or end-user application. In all cases, our goal is to position our sales and customer support resources near our customers' facilities so as to provide support for customers in their own language and consistent with local customs. Our sales and customer support resources are located primarily in Singapore, Taiwan, China, Korea, Malaysia, the Philippines, Japan, Thailand, the U.S., Germany, Mexico and the Netherlands. Supporting these local resources, we have technology centers offering additional process expertise in Singapore, China, Israel, the U.S and the Netherlands. By establishing relationships with semiconductor manufacturers, OSATs, and vertically integrated manufacturers of electronic systems, we gain insight into our customers' future semiconductor packaging strategies. In addition, we also send our products and equipment to customers or potential customers for trial and evaluation. These insights assist us in our efforts to develop products and processes that address our customers' future assembly requirements.

Backlog

Our backlog consists of customer orders scheduled for shipment within the next twelve months. A majority of our orders are subject to cancellation or deferral by our customers with limited or no penalties. Also, customer demand for our products can vary dramatically without prior notice. Because of the volatility of customer demand, possibility of customer changes in delivery schedules or cancellations and potential delays in product shipments, our backlog as of any particular date may not be indicative of net revenue for any succeeding period.

The following table reflects our backlog as of October 1, 2016 and October 3, 2015:

	As of
(in thousands)	

	October 1, 2016	October 3, 2015
Backlog	$ 87,200	$ 52,500

8

Manufacturing

We believe excellence in manufacturing can create a competitive advantage, both by producing at lower costs and by providing superior responsiveness to changes in customer demand. To achieve these goals, we manage our manufacturing operations through a single organization and believe that fewer, larger factories allow us to capture economies of scale and generate cost savings through lower manufacturing costs.

Equipment

Our equipment manufacturing activities consist mainly of integrating outsourced parts and subassemblies and testing finished products to customer specifications. We largely utilize an outsource model, allowing us to minimize our fixed costs and capital expenditures. For certain low-volume, high customization parts, we manufacture subassemblies ourselves. Just-in-time inventory management has reduced our manufacturing cycle times and lowered our on-hand inventory requirements. Raw materials used in our equipment manufacturing are generally available from multiple sources; however, many outsourced parts and components are only available from a single or limited number of sources.

Our ball bonder, wedge bonder and APAMA bonder manufacturing and assembly is done at our facility in Singapore. Our Hybrid and Electronic Assembly solutions manufacturing and assembly is done at our facility in the Netherlands. We have ISO 9001 and ISO 14001 certifications for our equipment manufacturing facilities in Singapore and the Netherlands.

Expendable Tools

We manufacture dicing blades, capillaries and a portion of our bonding wedge inventory at our facility in Suzhou, China. The capillaries are made using blanks produced at our facility in Yokneam, Israel. We both produce and outsource the production of our bonding wedges. Both the Suzhou and Yokneam facilities are ISO 9001 certified. The Suzhou facility is also ISO 14001 and ISO 18001 certified.

Research and Product Development

Many of our customers generate technology roadmaps describing their projected packaging technology requirements. Our research and product development activities are focused on delivering robust production solutions to those projected requirements. We accomplish this by regularly introducing improved versions of existing products or by developing next-generation products. We follow this product development methodology in all our major product lines. Research and development expense was $92.4 million, $90.0 million, and $83.1 million during fiscal 2016, 2015, and 2014, respectively.

Intellectual Property

Where circumstances warrant, we apply for patents on inventions governing new products and processes developed as part of our ongoing research, engineering, and manufacturing activities. We currently hold a number of U.S. patents, many of which have foreign counterparts. We believe the duration of our patents often exceeds the commercial life cycles of the technologies disclosed and claimed in the patents. Additionally, we believe much of our important technology resides in our trade secrets and proprietary software.

Competition

The market for semiconductor equipment and packaging materials products is intensely competitive. Significant competitive factors in the semiconductor equipment market include price, speed/throughput, production yield, process control, delivery time, innovation, quality and customer support, each of which contribute to lower the overall cost per package being manufactured. Our major equipment competitors include:

- Ball bonders: ASM Pacific Technology and Shinkawa Ltd.
- Wedge bonders: ASM Pacific Technology, Cho-Onpa, F&K Delvotec, and Hesse Mechatronics
- APAMA bonders: ASM Pacific Technology, BE Semiconductor Industries N.V., Shibaura Mechatronics Corporation, Shinkawa Ltd., and Toray Industries, Inc.
- Hybrid solutions: ASM Pacific Technology, BE Semiconductor Industries N.V., HANMI Semiconductor, and Shinkawa Ltd.
- Electronic Assembly solutions: ASM Pacific Technology, Fuji Machine Mfg. Co., Ltd., Panasonic Factory Solutions Co., Ltd., and Yamaha Motor Co., Ltd.

Table of Contents

Significant competitive factors in the semiconductor packaging materials industry include performance, price, delivery, product life, and quality. Our significant expendable tools competitors include:

- Capillaries: Adamant Co., Ltd., PECO, and Small Precision Tools, Inc.
- Dicing blades: Disco Corporation and Zhengzhou Hongtuo Superabrasive Products Co. Ltd
- Bonding wedges: Small Precision Tools, Inc.

In each of the markets we serve, we face competition and the threat of competition from established competitors and potential new entrants, some of which may have greater financial, engineering, manufacturing, and marketing resources.

Environmental Matters

We are subject to various federal, state, local and foreign laws and regulations governing, among other things, the generation, storage, use, emission, discharge, transportation and disposal of hazardous materials and the health and safety of our employees. In addition, we are subject to environmental laws which may require investigation and cleanup of any contamination at facilities we own or operate or at third-party waste disposal sites we use or have used. We have incurred in the past, and expect in the future to incur costs to comply with environmental laws. We are not, however, currently aware of any material costs or liabilities relating to environmental matters, including any claims or actions under environmental laws or obligations to perform any cleanups at any of our facilities or any third-party waste disposal sites, that we expect to have a material adverse effect on our business, financial condition or operating results. However, it is possible that material environmental costs or liabilities may arise in the future.

Business Continuity Management Plan

We have developed and implemented a global Business Continuity Management Plan ("Plan") for our business operations. The Plan is designed to facilitate the prompt resumption of our business operations and functions arising from an event which impacts or potentially impacts our business operations. As the scale, timing, and impact of disasters and disruptions are unpredictable, the Plan has been designed to be flexible in responding to actual events as they occur. The Plan provides a structured framework for safeguarding our employees and property, making a financial and operational assessment, protecting our books and records, perpetuating critical business functions, and enabling the continuation of customer transactions.

Employees

As of October 1, 2016, we had approximately 2,389 regular full-time employees and 206 temporary workers worldwide.

Table of Contents

Item 1A. RISKS RELATED TO OUR BUSINESS AND INDUSTRY

Our operating results and financial condition are adversely impacted by volatile worldwide economic conditions.

Though the semiconductor industry's cycle can be independent of the general economy, global economic conditions may have a direct impact on demand for semiconductor units and ultimately demand for semiconductor capital equipment and expendable tools. Accordingly, our business and financial performance is impacted, both positively and negatively, by fluctuations in the macroeconomic environment. Our visibility into future demand is generally limited and forecasting is difficult. There can be no assurances regarding levels of demand for our products and we believe historic industry-wide volatility will persist.

Unpredictable spending by our customers due to uncertainties in the macroeconomic environment could adversely affect our net revenue and profitability.

We depend upon demand from our customers including IDMs and OSATs, industrial manufacturers and automotive electronics suppliers. Our net revenue and profitability is based upon our customers' anticipated sales. Reductions or other fluctuations in their spending as a result of uncertain conditions in the macroeconomic environment, including from government, economic or fiscal instability, restricted global credit conditions, reduced demand, unbalanced inventory levels, fluctuations in interest rates, higher energy prices, or other conditions, could adversely affect our net revenue and profitability. The impact of general economic slowdowns could make our customers cautious and delay orders until the economic environment becomes clearer.

The semiconductor industry is volatile with sharp periodic downturns and slowdowns. Cyclical industry downturns are made worse by volatile global economic conditions.

Our operating results are significantly affected by the capital expenditures of semiconductor manufacturers, both IDMs and OSATs. Expenditures by our customers depend on the current and anticipated market demand for semiconductors and products that use semiconductors, including mobile devices, personal computers, consumer electronics, telecommunications equipment, automotive goods and other industrial products. Significant downturns in the market for semiconductor devices or in general economic conditions reduce demand for our products and can materially and adversely affect our business, financial condition and operating results.

The semiconductor industry is volatile, with periods of rapid growth followed by industry-wide retrenchment. These periodic downturns and slowdowns have adversely affected our business, financial condition and operating results. Downturns have been characterized by, among other things, diminished product demand, excess production capacity, and accelerated erosion of selling prices. Historically these downturns have severely and negatively affected the industry's demand for capital equipment, including assembly equipment and, to a lesser extent, expendable tools. There can be no assurances regarding levels of demand for our products. In any case, we believe the historical volatility of our business, both upward and downward, will persist.

We may experience increasing price pressure.

Typically our average selling prices have declined over time. We seek to offset this decline by continually reducing our cost structure by consolidating operations in lower cost areas, reducing other operating costs, and by pursuing product strategies focused on product performance and customer service. These efforts may not be able to fully offset price declines; therefore, our financial condition and operating results may be materially and adversely affected.

Our quarterly operating results fluctuate significantly and may continue to do so in the future.

In the past, our quarterly operating results have fluctuated significantly. We expect quarterly results will continue to fluctuate. Although these fluctuations are partly due to the cyclical and volatile nature of the semiconductor industry, they also reflect other factors, many of which are outside of our control.

Some of the factors that may cause our net revenue and operating margins to fluctuate significantly from period to period are:

- market downturns;
- industry inventory level;
- the mix of products we sell because, for example:
  - certain lines of equipment within our business segments are more profitable than others; and
  - some sales arrangements have higher gross margins than others;

- cancelled or deferred orders;
- seasonality;
- competitive pricing pressures may force us to reduce prices;

- higher than anticipated costs of development or production of new equipment models;
- the availability and cost of the components for our products;
- delays in the development and manufacture of our new products and upgraded versions of our products and market acceptance of these products when introduced;
- customers' delay in purchasing our products due to anticipation that we or our competitors may introduce new or upgraded products; and
- our competitors' introduction of new products.

Many of our expenses, such as research and development, selling, general and administrative expenses, and interest expense, do not vary directly with our net revenue. Our research and development efforts include long-term projects lasting a year or more, which require significant investments. In order to realize the benefits of these projects, we believe that we must continue to fund them even during periods when our revenue has declined. As a result, a decline in our net revenue would adversely affect our operating results as we continue to make these expenditures. In addition, if we were to incur additional expenses in a quarter in which we did not experience comparable increased net revenue, our operating results would decline. In a downturn, we may have excess inventory, which could be written off. Some of the other factors that may cause our expenses to fluctuate from period-to-period include:

- timing and extent of our research and development efforts;
- severance, restructuring, and other costs of relocating facilities;
- inventory write-offs due to obsolescence or other causes; and
- an increase in the cost of labor or materials.

Because our net revenue and operating results are volatile and difficult to predict, we believe consecutive period-to-period comparisons of our operating results may not be a good indication of our future performance.

We may not be able to rapidly develop, manufacture and gain market acceptance of new and enhanced products required to maintain or expand our business.

We believe our continued success depends on our ability to continuously develop and manufacture new products and product enhancements on a timely and cost-effective basis. We must introduce these products and product enhancements into the market in a timely manner in response to customers' demands for higher performance assembly equipment and leading-edge materials customized to address rapid technological advances in integrated circuits, and capital equipment designs. Our competitors may develop new products or enhancements to their products that offer improved performance and features, or lower prices which may render our products less competitive. The development and commercialization of new products require significant capital expenditures over an extended period of time, and some products we seek to develop may never become profitable. In addition, we may not be able to develop and introduce products incorporating new technologies in a timely manner that will satisfy our customers' future needs or achieve market acceptance.

The transition from gold to copper wire bonding by our customers and the industry may be substantially completed.

Since fiscal 2010, many of our customers have converted their bonding wire from gold to copper wire. Since this initial conversion, a majority of our wire bonder sales have been copper capable bonders. In fiscal 2016, 88% of total ball bonders sold by the Company were copper capable bonders. If the transition from gold to copper wire bonding by our customers is substantially completed or customers transition away from copper wire bonding, there may be a reduced demand for our wire bonders and our financial condition and operating results may be materially and adversely affected.

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

Approximately 92.4%, 91.2%, and 94.4% of our net revenue for fiscal 2016, 2015, and 2014, respectively, was for shipments to customers located outside of the U.S., primarily in the Asia/Pacific region. In the Asia/Pacific region, our customer base is also becoming more geographically concentrated as a result of economic and industry conditions. Approximately 33.7%, 31.6% and 25.4% of our net revenue for the fiscal 2016, 2015, and 2014 was for shipments to customers located in China.

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

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

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

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

Our international operations also depend upon favorable trade relations between the U.S. and those foreign countries in which our customers, subcontractors and materials suppliers have operations. A protectionist trade environment in either the U.S. or those foreign countries in which we do business, such as a change in the current tariff structures, export compliance or other trade policies, may materially and adversely affect our ability to sell our products in foreign markets.

Increased labor costs and competition for qualified personnel may reduce the efficiency of our flexible manufacturing model and adversely impact our operating results.

There is some uncertainty with respect to the pace of rising labor costs in the various countries in which we operate. In addition, there is substantial competition in China, Singapore, Israel and the Netherlands for qualified and capable personnel, which may make it difficult for us to recruit and retain qualified employees. If we are unable to staff sufficient personnel at our China, Singapore, Israel and the Netherlands facilities or if there are increases in labor costs that we are unable to recover in our pricing to our customers, we may experience increased manufacturing costs, which would adversely affect our operating results.

We are exposed to fluctuations in currency exchange rates that could negatively impact our financial results and cash flows.

Because most of our foreign sales are denominated in U.S. dollars or Euros, an increase in value of the U.S. dollar or the Euro against foreign currencies will make our products more expensive than those offered by some of our foreign competitors. In addition, a weakening of the U.S. dollar against other currencies other than the Euro could make our costs in non-U.S. locations more expensive to fund. Our ability to compete overseas may therefore be materially and adversely affected by the fluctuations of the U.S. dollar or the Euro against other currencies.

Because nearly all of our business is conducted outside the U.S., we face exposure to adverse movements in foreign currency exchange rates which could have a material adverse impact on our financial results and cash flows. Historically, our primary exposures have related to net working capital exposures denominated in currencies other than the foreign subsidiaries' functional currency, and remeasurement of our foreign subsidiaries' net monetary assets from the subsidiaries' local currency into the subsidiaries' functional currency. In general, an increase in the value of the U.S. dollar could require certain of our foreign subsidiaries to record translation and remeasurement gains. Conversely, a decrease in the value of the U.S. dollar could require certain of our foreign subsidiaries to record losses on translation and remeasurement. An increase in the value of the U.S. dollar could increase the cost to our customers of our products in those markets outside the U.S. where we sell in U.S. dollars, and a weakened U.S. dollar could increase the cost of local operating expenses and procurement of raw materials, both of which could have an adverse effect on our cash flows. Our primary exposures include the Singapore Dollar, Chinese Yuan, Japanese Yen, Malaysian Ringgit, Swiss Franc, Philippine Peso, Thai Baht, Taiwan Dollar, South Korean Won, Israeli Shekel and Euro. Although we from time to time have entered into foreign exchange forward contracts to hedge certain foreign currency exposure of our operating expenses, 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 flows.

We may not be able to continue to consolidate manufacturing and other facilities or entities without incurring unanticipated costs and disruptions to our business.

As part of our ongoing efforts to drive further efficiency, we may consolidate our manufacturing and other facilities or entities. Should we consolidate, we may experience unanticipated events, including the actions of governments, suppliers, employees or customers, which may result in unanticipated costs and disruptions to our business.

Our business depends on attracting and retaining management, marketing and technical employees as well as on the succession of senior management.

Our future success depends on our ability to hire and retain qualified management, marketing, finance, accounting and technical employees, including senior management. Experienced personnel with the relevant and necessary skill sets in our industry are in high demand and competition for their talents is intense, especially in Asia, where most of the Company’s key personnel are located. If we are unable to continue to attract and retain the managerial, marketing, finance, accounting and technical personnel we require, our business, financial condition and operating results may be materially and adversely affected.

Effective succession planning is also important to our long-term success. Failure to ensure effective transfer of knowledge and smooth transitions involving senior management could hinder our strategic planning and execution. From time to time, senior management may leave our company, such as the departure of our chief executive officer. While we strive to reduce the negative impact of such changes, the loss of any key employee could result in significant disruptions to our operations, including adversely affecting the timeliness of product releases, the successful implementation and completion of company initiatives, the effectiveness of our disclosure controls and procedures and our internal control over financial reporting, and the results of our operations. In addition, hiring, training, and successfully integrating replacement critical personnel could be time consuming, may cause additional disruptions to our operations, and may be unsuccessful, which could negatively impact future revenues.

Difficulties in forecasting demand for our product lines may lead to periodic inventory shortages or excesses.

We typically operate our business with limited visibility of future demand. As a result, we sometimes experience inventory shortages or excesses. We generally order supplies and otherwise plan our production based on internal forecasts for demand. We have in the past failed, and may again in the future fail, to accurately forecast demand for our products. This has led to, and may in the future lead to, delays in product shipments or, alternatively, an increased risk of inventory obsolescence. If we fail to accurately forecast demand for our products, our business, financial condition and operating results may be materially and adversely affected.

Alternative packaging technologies may render some of our products obsolete and materially and adversely affect our overall business and financial results.

Alternative packaging technologies have emerged that may improve device performance or reduce the size of an integrated circuit package, as compared to traditional wire bonding. These technologies include flip chip and WLP. Some of these alternative technologies eliminate the need for wires to establish the electrical connection between a die and its package. The semiconductor industry may, in the future, shift a significant part of its volume into alternative packaging technologies which do not employ our products. If a significant shift to alternative packaging technologies to a technology not offered by us were to occur, demand for our equipment and related packaging materials may be materially and adversely affected. Given the lack of a significant alternate revenue stream other than wire bonding, a reduced demand for our equipment could materially and adversely affect our financial results.

Because a small number of customers account for most of our sales, our net revenue could decline if we lose a significant customer.

The semiconductor manufacturing industry is highly concentrated, with a relatively small number of large semiconductor manufacturers and their subcontract assemblers and vertically integrated manufacturers of electronic systems purchasing a substantial portion of our semiconductor assembly equipment and packaging materials. Sales to a relatively small number of customers have historically accounted for a significant percentage of our net revenue. Sales to our largest customers, defined as more than 10% of our net revenue, comprised 11.5% of our net revenue for fiscal 2016 and sales to our ten largest customers comprised 47.6% of our net revenue for fiscal 2016. No customer accounted for more than 10% of our net revenue in either fiscal 2014 or 2015.

We expect a small number of customers will continue to account for a high percentage of our net revenue for the foreseeable future. Thus, our business success depends on our ability to maintain strong relationships with our customers. Any one of a number of factors could adversely affect these relationships. If, for example, during periods of escalating demand for our equipment, we were unable to add inventory and production capacity quickly enough to meet the needs of our customers, they may turn to other suppliers making it more difficult for us to retain their business. If we lose orders from a significant customer, or if a significant customer reduces its orders substantially, these losses or reductions may materially and adversely affect our business, financial condition and operating results.

We maintain a backlog of customer orders that is subject to cancellation, reduction or delay in delivery schedules, which may result in lower than expected revenues.

We manufacture products primarily pursuant to purchase orders for current delivery or to forecast, rather than pursuant to long-term supply contracts. The semiconductor industry is occasionally subject to double-booking and rapid changes in customer outlooks or unexpected build ups of inventory in the supply channel as a result of shifts in end market demand and macro-economic conditions. Accordingly, many of these purchase orders or forecasts may be revised or canceled without penalty. As a result, we must commit resources to the manufacture of products without binding purchase commitments from customers. Even in cases where our standard terms and conditions of sale or other contractual arrangements do not permit a customer to cancel an order without penalty, we may from time to time accept cancellations to maintain customer relationships or because of industry practice, custom or other factors. Our inability to sell products after we devote significant resources to them could have a material adverse effect on both our levels of inventory and revenues. While we currently believe our inventory levels are appropriate for the current economic environment, continued global economic uncertainty may result in lower than expected demand.

We send products and equipment to customers or potential customers for trial, evaluation or other purposes which may result in retrofit charges, impairments or write-down of inventory value if the products and equipment are not subsequently purchased by the customers.

From time to time we send certain products and equipment to customers or potential customers for testing, evaluation or other purposes in advance of receiving any confirmation of purchase or purchase orders. Such equipment may be at the customer location for an extended period of time per the agreements with these customers and potential customers. The customer may refuse to buy all or partial quantities of such product or equipment and return this back to us. As a result, we may incur charges to retrofit the machines or sell the machines as second hand at a lower price, and accordingly may have to record impairments on the returned inventory, all of which would adversely affect our operating results.

Undetected problems in our products could directly impair our financial results.

If flaws in design, production, assembly or testing of our products (by us or our suppliers) were to occur, we could experience a rate of failure in our products that would result in substantial repair, replacement or service costs and potential damage to our reputation. Continued improvement in manufacturing capabilities, control of material and manufacturing quality and costs and product testing are critical factors in our future growth. There can be no assurance that our efforts to monitor, develop, modify and implement appropriate tests and manufacturing processes for our products will be sufficient to permit us to avoid a rate of failure in our products that results in substantial delays in shipment, significant repair or replacement costs or potential damage to our reputation, any of which could have a material adverse effect on our business, results of operations or financial condition.

Costs related to product defect and errata may harm our results of operations and business.

Costs of product defects and errata (deviations from product specifications) due to, for example, problems in our design and manufacturing processes, or those of our suppliers, could include:

- writing off the value of inventory;
- disposing of products that cannot be fixed;

Table of Contents

- retrofitting products that have been shipped;
- providing product replacements or modifications; and
- defending against litigation.

These costs could be large and may increase expenses and lower our operating profits. Our reputation with customers or end users could be damaged as a result of product defects and errata, and product demand could be reduced. These factors could harm our business and financial results.

We depend on our suppliers, including sole source suppliers, for critical raw materials, components and subassemblies. If our suppliers do not deliver their products to us, we would be unable to deliver our products to our customers.

Our products are complex and require raw materials, components and subassemblies having a high degree of reliability, accuracy and performance. We rely on subcontractors to manufacture many of these components and subassemblies and we rely on sole source suppliers for many components and raw materials. As a result, we are exposed to a number of significant risks, including:

- decreased control over the manufacturing process for components and subassemblies;
- changes in our manufacturing processes in response to changes in the market, which may delay our shipments;
- our inadvertent use of defective or contaminated raw materials;
- the relatively small operations and limited manufacturing resources of some of our suppliers, which may limit their ability to manufacture and sell subassemblies, components or parts in the volumes we require and at acceptable quality levels and prices;
- the inability of suppliers to meet customer demand requirements during volatile cycles;
- reliability or quality issues with certain key subassemblies provided by single source suppliers as to which we may not have any short term alternative;
- shortages caused by disruptions at our suppliers and subcontractors for a variety of reasons, including work stoppage or fire, earthquake, flooding or other natural disasters;
- delays in the delivery of raw materials or subassemblies, which, in turn, may delay shipments to our customers;
- loss of suppliers as a result of consolidation of suppliers in the industry; and
- loss of suppliers because of their bankruptcy or insolvency.

If we are unable to deliver products to our customers on time and at expected cost for these or any other reasons, or we are unable to meet customer expectations as to cycle time, or we are unable to maintain acceptable product quality or reliability, our business, financial condition and operating results may be materially and adversely affected.

Recent regulations related to “conflict minerals” may force us to incur additional expenses, may make our supply chain more complex and may result in damage to our reputation with customers.

In 2012, under the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, or the Dodd-Frank Act, the SEC adopted requirements for companies that use certain minerals and metals, known as conflict minerals, in their products, regardless of whether these products are manufactured by third parties. These requirements require companies to conduct due diligence and disclose whether or not such minerals originate from the Democratic Republic of Congo and certain adjoining countries. These requirements could adversely affect the sourcing, availability and pricing of minerals used in the manufacture of semiconductor devices, including our products. In addition, since our supply chain is complex, we may not be able to sufficiently verify the origins for these minerals and metals used in our products through the due diligence procedures that we implement, which may harm our reputation. In such event, we may also face difficulties in satisfying customers who require that all of the components of our products are certified as conflict mineral free.

We may acquire or divest businesses or enter into joint ventures or strategic alliances, which may materially affect our business, financial condition and operating results.

We continually evaluate our portfolio of businesses and may decide to buy or sell businesses or enter into joint ventures or other strategic alliances. We may be unable to successfully integrate acquired businesses with our existing businesses and successfully implement, improve and expand our systems, procedures and controls to accommodate these acquisitions. These transactions place additional demands on our management and current labor force. Additionally, these transactions require significant resources from our legal, finance and business teams. In addition, we may divest existing businesses, which would cause a decline in revenue and may make our financial results more volatile. If we fail to integrate and manage acquired businesses successfully or to manage the risks associated with divestitures, joint ventures or other alliances, our business, financial condition and operating results may be materially and adversely affected.

The market price of our common shares and our earnings per share may decline as a result of any acquisitions or divestitures.

The market price of our common shares may decline as a result of any acquisitions or divestitures made by us if we do not achieve the perceived benefits of such acquisitions or divestitures as rapidly or to the extent anticipated by financial or industry analysts or if the effect on our financial results is not consistent with the expectations of financial or industry analysts. In addition, the failure to achieve expected benefits and unanticipated costs relating to our acquisitions could reduce our future earnings per share.

We may be unable to continue to compete successfully in the highly competitive semiconductor equipment and packaging materials industries.

The semiconductor equipment and packaging materials industries are very competitive. In the semiconductor equipment industry, significant competitive factors include price, speed/throughput, production yield, process control, delivery time, innovation, quality and customer support. In the semiconductor packaging materials industry, competitive factors include price, delivery and quality.

In each of our markets, we face competition and the threat of competition from established competitors and potential new entrants. In addition, established competitors may combine to form larger, better capitalized companies. Some of our competitors have or may have significantly greater financial, engineering, manufacturing and marketing resources. Some of these competitors are Asian and European companies that have had, and may continue to have, an advantage over us in supplying products to local customers who appear to prefer to purchase from local suppliers, without regard to other considerations.

We expect our competitors to improve their current products' performance, and to introduce new products and materials with improved price and performance characteristics. Our competitors may independently develop technology similar to or better than ours. New product and material introductions by existing competitors or by new market entrants could hurt our sales. If a semiconductor manufacturer or subcontract assembler selects a competitor's product or materials for a particular assembly operation, we may not be able to sell products or materials to that manufacturer or assembler for a significant period of time. Manufacturers and assemblers sometimes develop lasting relationships with suppliers and assembly equipment providers in our industry and often go years without requiring replacement. In addition, we may have to lower our prices in response to price cuts by our competitors, which may materially and adversely affect our business, financial condition and operating results. If we cannot compete successfully, we could be forced to reduce prices and could lose customers and experience reduced margins and profitability.

Our success depends in part on our intellectual property, which we may be unable to protect.

Our success depends in part on our proprietary technology. To protect this technology, we rely principally on contractual restrictions (such as nondisclosure and confidentiality provisions) in our agreements with employees, subcontractors, vendors, consultants and customers and on the common law of trade secrets and proprietary “know-how.” We also rely, in some cases, on patent and copyright protection, although this protection may in some cases be insufficient as the duration of our patents often exceeds the commercial life cycles of the technologies disclosed and claimed in the patents due to the rapid development of technology in our industry. We may not be successful in protecting our technology for a number of reasons, including the following:

- employees, subcontractors, vendors, consultants and customers may violate their contractual agreements, and the cost of enforcing those agreements may be prohibitive, or those agreements may be unenforceable or more limited than we anticipate;
- foreign intellectual property laws may not adequately protect our intellectual property rights; and
- our patent and copyright claims may not be sufficiently broad to effectively protect our technology; our patents or copyrights may be challenged, invalidated or circumvented; or we may otherwise be unable to obtain adequate protection for our technology.

In addition, our partners and alliances may have rights to technology developed by us. We may incur significant expense to protect or enforce our intellectual property rights. If we are unable to protect our intellectual property

rights, our competitive position may be weakened.
Third parties may claim we are infringing on their intellectual property, which could cause us to incur significant litigation costs or other expenses, or prevent us from selling some of our products.
The semiconductor industry is characterized by rapid technological change, with frequent introductions of new products and technologies. Industry participants often develop products and features similar to those introduced by others, creating a risk that their products and processes may give rise to claims they infringe on the intellectual property of others. We may unknowingly

infringe on the intellectual property rights of others and incur significant liability for that infringement. If we are found to have infringed on the intellectual property rights of others, we could be enjoined from continuing to manufacture, market or use the affected product, or be required to obtain a license to continue manufacturing or using the affected product. A license could be very expensive to obtain or may not be available at all. Similarly, changing or re-engineering our products or processes to avoid infringing the rights of others may be costly, impractical or time consuming.

Occasionally, third parties assert that we are, or may be, infringing on or misappropriating their intellectual property rights. In these cases, we defend, and will continue to defend, against claims or negotiate licenses where we consider these actions appropriate. Intellectual property cases are uncertain and involve complex legal and factual questions. If we become involved in this type of litigation, it could consume significant resources and divert our attention from our business.

We may be materially and adversely affected by environmental and safety laws and regulations.

We are subject to various federal, state, local and foreign laws and regulations governing, among other things, the generation, storage, use, emission, discharge, transportation and disposal of hazardous material, investigation and remediation of contaminated sites and the health and safety of our employees. Increasingly, public attention has focused on the environmental impact of manufacturing operations and the risk to neighbors of chemical releases from such operations.

Proper waste disposal plays an important role in the operation of our manufacturing plants. In many of our facilities we maintain wastewater treatment systems that remove metals and other contaminants from process wastewater. These facilities operate under permits that must be renewed periodically. A violation of those permits may lead to revocation of the permits, fines, penalties or the incurrence of capital or other costs to comply with the permits, including potential shutdown of operations.

Compliance with existing or future, land use, environmental and health and safety laws and regulations may: (1) result in significant costs to us for additional capital equipment or other process requirements, (2) restrict our ability to expand our operations and/or (3) cause us to curtail our operations. We also could incur significant costs, including cleanup costs, fines or other sanctions and third-party claims for property damage or personal injury, as a result of violations of or liabilities under such laws and regulations. Any costs or liabilities to comply with or imposed under these laws and regulations could materially and adversely affect our business, financial condition and operating results.

We have the ability to issue additional equity securities, which would lead to dilution of our issued and outstanding common shares.

The issuance of additional equity securities or securities convertible into equity securities will result in dilution of our existing shareholders' equity interests in us. Our board of directors has the authority to issue, without vote or action of shareholders, preferred shares in one or more series, and has the ability to fix the rights, preferences, privileges and restrictions of any such series. Any such series of preferred shares could contain dividend rights, conversion rights, voting rights, terms of redemption, redemption prices, liquidation preferences or other rights superior to the rights of holders of our common shares. In addition, we are authorized to issue, without shareholder approval, up to an aggregate of 200 million common shares, of which approximately 70.4 million shares were outstanding as of October 1, 2016. We are also authorized to issue, without shareholder approval, securities convertible into either common shares or preferred shares.

Weaknesses in our internal controls and procedures could result in material misstatements in our financial statements.

Pursuant to the Sarbanes-Oxley Act, management is responsible for establishing and maintaining adequate internal control over financial reporting. Our internal controls over financial reporting are processes designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with U.S. generally accepted accounting principles. A material weakness is a control deficiency, or combination of control deficiencies, that results in a more than remote likelihood that a material misstatement of annual or interim financial statements will not be prevented or detected.

Our internal controls may not prevent all potential errors or fraud. Any control system, no matter how well designed and implemented, can only provide reasonable and not absolute assurance that the objectives of the control system will be achieved. We or our independent registered public accountants may identify material weaknesses in our internal controls which could adversely affect our ability to ensure proper financial reporting and could affect investor confidence in us and the price of our common shares.

We may be subject to disruptions or failures in our information technology systems and network infrastructures that could have a material adverse effect on us.

We maintain and rely extensively on information technology systems and network infrastructures for the effective operation of our business. We also hold large amounts of data in data center facilities around the world, primarily in Singapore and the U.S., which our business depends upon. A disruption, infiltration or failure of our information technology systems or any of our data centers as a result of software or hardware malfunctions, computer viruses, cyber-attacks, employee theft or misuse, power disruptions, natural disasters or accidents could cause breaches of data security and loss of critical data, which in turn could materially adversely affect our business. Our security procedures, such as virus protection software and our business continuity planning, such as our disaster recovery policies and back-up systems, may not be adequate or implemented properly to fully address the adverse effect of such events, which could adversely impact our operations. In addition, our business could be adversely affected to the extent we do not make the appropriate level of investment in our technology systems as our technology systems become out-of-date or obsolete and are not able to deliver the type of data integrity and reporting we need to run our business. Furthermore, when we implement new systems and or upgrade existing systems, we could be faced with temporary or prolonged disruptions that could adversely affect our business.

If the tax holiday arrangements we have negotiated in Singapore change or cease to be in effect or applicable, in part or in whole, for any reason, the amount of corporate income taxes we have to pay could significantly increase.

We have structured our operations to maximize the benefit from tax holidays extended to us in Singapore to encourage investment or employment. We have the Development and Expansion Incentive ("DEI") from Singapore Economic Development Board, an agency of the Government of Singapore, which provides that certain classes of income we earn in Singapore are subject to reduced rates of Singapore income tax. In order to retain the tax benefit, we must meet certain operating conditions, among other things, maintenance of certain global headquarters functions, specified IP activities and specified manufacturing activities in Singapore. The DEI is presently scheduled to expire in 2020. Renewals and extensions of the DEI are at the discretion of the Singapore government, and we may not be able to extend the tax incentive arrangement after its expiration on similar terms or at all. We may also elect not to renew or extend this tax incentive arrangement. In the absence of DEI, the corporate income tax rate in Singapore that would otherwise apply would be 17%. The tax incentive is also subject to our compliance with various operating and other conditions. If we cannot, or elect not to, comply with the operating conditions included in the tax incentive, we will lose the related tax benefits. In such event, we could be required to refund material tax benefits previously realized by us with respect to that incentive.

Risks Related to the Assembléon Acquisition

We face risks associated with integrating Assembléon into the Company.

The successful expansion of our business and operations resulting from the Assembléon acquisition will require significant time, effort, attention and dedication of management and may strain our operational and financial resources. It is possible that integrating Assembléon and its businesses into the Company could result in changes to or pressure on compliance with standards, controls, procedures and policies. This process could expose us to risks and challenges, including:

- unanticipated issues in coordinating information, communication and other systems;
- unexpected loss of key employees;
- distraction of management attention from our other businesses;
- failure to retain key customers;
- the need to modify operating and accounting controls and procedures; and
- foreign currency fluctuation that could negatively impact our financial results and cash flows.

In addition, it is possible that our exposure to potential liabilities resulting from Assembléon's business, some of which may be material or unknown, could exceed amounts we can recover through indemnification claims.

These types of challenges and uncertainties could have a material adverse effect on our business, cash flows, results of operations and financial condition.

We may fail to realize the anticipated benefits of the Assembléon acquisition.

The Assembléon acquisition is intended to expand our presence in the automotive, industrial and advanced packaging markets. The success of the Assembléon acquisition will depend on, among other things, our ability to integrate Assembléon and its businesses into the Company in a manner that permits growth opportunities and does not disrupt existing client relationships or result in decreased revenues due to customer attrition or other factors. Assembléon's businesses are also subject to certain risks that may negatively affect the financial results for our Equipment and Expendable Tools business segments, including, among others, the following:

- Assembléon’s businesses are largely dependent on the health of the industries in which it participates. These industries may be impacted by market and regulatory factors, and there can be no assurance that we will realize the potential growth opportunities from these industries.

- The goodwill established in connection with our acquisition of Assembléon represents the estimated future economic benefits arising from the assets we have acquired that did not qualify to be identified and recognized individually. The goodwill also includes the value of expected future cash flows of Assembléon, expected synergies with our other affiliates and other unidentifiable intangible assets. Goodwill is deemed to have an indefinite useful life and is subject to review for impairment annually, or more frequently, whenever circumstances indicate potential impairment. The value of goodwill is supported by revenue, which is driven primarily by transaction volume. Intangible assets other than goodwill primarily consist of developed technology, customer relationships and trade and brand name.
- The calculation of the estimated fair value of goodwill and other intangibles requires the use of significant estimates and assumptions that are highly subjective in nature, such as attrition rates, discount rates, future expected cash flows and market conditions. Our estimates are based upon assumptions believed to be reasonable, but which are inherently uncertain and unpredictable. If actual results differ from our assumptions, we may not realize the full value of our intangible assets and goodwill.

For these and other reasons there can be no assurance that the anticipated synergies and benefits from the transaction will be realized fully or at all. If we fail to realize the full value of our intangible assets and goodwill related to the acquisition, we may be required to write down or write off all such intangible assets or goodwill. Such an impairment of our goodwill or intangible assets could have a material adverse effect on our results of operations.

Other Risks

Our ability to recognize tax benefits on future domestic U.S. tax losses and our existing U.S. net operating loss position may be limited.

We have generated net operating loss carry-forwards and other tax attributes for U.S. tax purposes (“Tax Benefits”) that can be used to reduce our future federal income tax obligations. Under the Tax Reform Act of 1986, the potential future utilization of our Tax Benefits for U.S. tax purposes may be limited following an ownership change. An ownership change is generally defined as a greater than 50% point increase in equity ownership by 5% shareholders in any three-year period under Section 382 of the Internal Revenue Code. An ownership change may significantly limit our ability to fully utilize our net operating losses which could materially and adversely affect our financial condition and operating results. Certain foreign jurisdictions may also have rules that are similar to the U.S. on limiting utilization of tax attributes resulting from an ownership change. As of October 1, 2016, we have foreign net operating loss carryforwards of $97.0 million, domestic state net operating loss carryforwards of $176.9 million, domestic federal net operating loss carryforwards of $1.1 million, and tax credit carryforwards of $10.9 million that can reduce future taxable income.

Potential changes to U.S. and foreign tax laws could increase our income tax expense.

We are subject to income taxes in the U.S. and many foreign jurisdictions. Officials in some of the jurisdictions in which we do business have proposed, or announced that they are reviewing, tax changes that could potentially increase taxes, and other revenue-raising laws and regulations. It is unclear whether these proposed tax revisions will be enacted, or, if enacted, what the scope of the revisions will be. Changes in U.S. and foreign tax laws, if enacted, could materially and adversely affect our financial condition and operating results.

Anti-takeover provisions in our articles of incorporation and bylaws, and under Pennsylvania law may discourage other companies from attempting to acquire us.

Some provisions of our articles of incorporation and bylaws as well as Pennsylvania law may discourage some transactions where we would otherwise experience a fundamental change. For example, our articles of incorporation and bylaws contain provisions that:

- classify our board of directors into four classes, with one class being elected each year;
- permit our board to issue “blank check” preferred shares without shareholder approval; and
- prohibit us from engaging in some types of business combinations with a holder of 20% or more of our voting securities without super-majority board or shareholder approval.

Further, under the Pennsylvania Business Corporation Law, because our shareholders approved bylaw provisions that provide for a classified board of directors, shareholders may remove directors only for cause. These provisions and some other provisions of the Pennsylvania Business Corporation Law could delay, defer or prevent us from experiencing a fundamental change and may adversely affect our common shareholders' voting and other rights.

20

Terrorist attacks, or other acts of violence or war may affect the markets in which we operate and our profitability. Terrorist attacks may negatively affect our operations. There can be no assurance that there will not be further terrorist attacks against the U.S. or U.S. businesses. Terrorist attacks or armed conflicts may directly impact our physical facilities or those of our suppliers or customers. Our primary facilities include administrative, sales and research and development facilities in Singapore and the U.S. and manufacturing and research and development facilities in China, and Israel. Additional terrorist attacks may disrupt the global insurance and reinsurance industries with the result that we may not be able to obtain insurance at historical terms and levels for all of our facilities. Furthermore, additional attacks may make travel and the transportation of our supplies and products more difficult and more expensive and ultimately affect the sales of our products in the U.S. and overseas. Additional attacks or any broader conflict, could negatively impact our domestic and international sales, our supply chain, our production capability and our ability to deliver products to our customers. Political and economic instability in some regions of the world could negatively impact our business. The consequences of terrorist attacks or armed conflicts are unpredictable, and we may not be able to foresee events that could have an adverse effect on our business.

Item 1B. UNRESOLVED STAFF COMMENTS

None.

Item 2. PROPERTIES

The following table reflects our major facilities as of October 1, 2016:

Facility (1)	Approximate Size	Function	Business Segment and Products Manufactured	Lease Expiration Date
Singapore	198,000 sq. ft.	Corporate headquarters, manufacturing, technology, sales and service center	Equipment: ball and wedge bonders, advanced packaging	November 2043 (2)
Suzhou, China	155,000 sq. ft.	Manufacturing, technology and shared support services center	Expendable Tools: capillaries, dicing blades and bonding wedges	Owned
Eindhoven, Netherlands	85,000 sq. ft.	Manufacturing, technology, sales and service center	Equipment: Advanced Packaging and Electronics Assembly	September 2020 (3)
Fort Washington, Pennsylvania	88,000 sq. ft.	Technology, sales and service center	Not applicable	September 2033 (4)
Santa Ana, California	65,000 sq. ft.	Technology, sales and service center	Not applicable	August 2036 (5)
Yokneam, Israel	21,000 sq. ft.	Manufacturing and technology center	Expendable Tools: capillary blanks (semi-finish)	January 2018 (6)

(1) Each of the facilities listed in this table is leased other than the facility in Suzhou, China.
(2) Includes lease extension periods at the Company's option. Initial lease expires in November 2023.
(3) Company relocated to Eindhoven, Netherlands from Veldhoven, Netherlands in October 2015.
(4) Includes lease extension periods at the Company's option. Initial lease expires in September 2023.
(5) Includes lease extension periods at the Company's option. Initial lease expires in August 2026.
(6) Includes lease extension periods at the Company's option. Initial lease expired in January 2015.

In addition, the Company rents space for sales and service offices and administrative functions in Asia, Europe and North America. The Company believes the facilities are generally in good condition and suitable to the extent of utilization needed.

21

Item 3. LEGAL PROCEEDINGS

From time to time, we may be a plaintiff or defendant in cases arising out of our business. We cannot be assured of the results of any pending or future litigation, but we do not believe resolution of these matters will materially or adversely affect our business, financial condition or operating results.

Item 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

Item 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock is traded on The Nasdaq Global Market ("Nasdaq") under the symbol "KLIC." The following table reflects the ranges of high and low sale prices for our common stock as reported on Nasdaq for the periods indicated:

	Fiscal 2016		Fiscal 2015	
	High	Low	High	Low
First Quarter	$12.39	$9.13	$14.84	$12.14
Second Quarter	$12.20	$9.63	$16.54	$13.81
Third Quarter	$12.98	$10.62	$16.08	$12.16
Fourth Quarter	$13.44	$11.29	$12.13	$8.80

On November 15, 2016, there were approximately 240 holders of record of the shares of outstanding common stock. The payment of dividends on our common stock is within the discretion of our board of directors; however, we have not historically paid any dividends on our common stock. In addition, we do not expect to declare dividends on our common stock in the near future, since we intend to retain earnings to finance our business.

For the purpose of calculating the aggregate market value of shares of our common stock held by non-affiliates, as shown on the cover page of this report, we have assumed all of our outstanding shares were held by non-affiliates except for shares held by our directors and executive officers. However, this does not necessarily mean that all directors and executive officers of the Company are, in fact, affiliates of the Company, or there are no other persons who may be deemed to be affiliates of the Company. Further information concerning the beneficial ownership of our executive officers, directors and principal shareholders will be included in our Proxy Statement for the 2017 Annual Meeting of Shareholders to be filed with the Securities and Exchange Commission on or about January 27, 2017.

Recent Sales of Unregistered Securities and Use of Proceeds

None.

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

On August 14, 2014, the Company's Board of Directors authorized a program (the "Program") to repurchase up to $100 million of the Company's common stock on or before August 14, 2017. The Company has entered into a written trading plan under Rule 10b5-1 of the Exchange Act to facilitate repurchases under the Program. The Program may be suspended or discontinued at any time and is funded using the Company's available cash. Under the Program, shares may be repurchased through open market and/or privately negotiated transactions at prices deemed appropriate by management. The timing and amount of repurchase transactions under the program depend on market conditions as well as corporate and regulatory considerations. During the quarter ended October 1, 2016, there were no shares repurchased by the Company. As of October 1, 2016, our remaining stock repurchase authorization under the Program was approximately $7.0 million.

Table of Contents

Item 6. SELECTED CONSOLIDATED FINANCIAL DATA

The following tables reflect selected historical consolidated financial data derived from the consolidated financial statements of Kulicke and Soffa Industries, Inc. and subsidiaries as of and for each of the five fiscal years ended 2016, 2015, 2014, 2013, and 2012.

This data should be read in conjunction with our consolidated financial statements, including notes and other financial information included elsewhere in this report or other reports filed previously by us in respect of the fiscal years identified in the column headings of the tables below.

Fiscal (in thousands)	2016	2015	2014	2013	2012
Statement of Operations Data:					
Net revenue	627,192	536,471	568,569	534,938	791,023
Income from operations	52,539	37,251	76,984	65,806	179,226
Interest income (expense), net	2,211	454	149	862	(4,975)
Income from continuing operations before income tax	54,750	37,705	77,133	66,668	174,251
Provision (Benefit) for income taxes from continuing operations (1)	7,638	(12,934)	14,145	7,310	13,671
Net income	$47,112	$50,639	$62,988	$59,358	$160,580

(1) The following are the most significant factors that affected our provision for income taxes: volatility in our earnings each fiscal year and variation in earnings among various tax jurisdictions in which we operate; changes in assumptions regarding repatriation of earnings; changes in tax legislation; and our provision for various tax exposure items.

	Fiscal				
	2016	2015	2014	2013	2012
Per Share Data:					
Net income per share: (1)					

Basic	$0.67	$0.67	$0.82	$0.79	$2.17
Diluted	$0.67	$0.67	$0.81	$0.78	$2.13
Weighted average shares outstanding: (1)					
Basic	70,477	75,414	76,396	75,132	73,887
Diluted	70,841	75,659	77,292	76,190	75,502

(1) For fiscal 2016, 2015, 2014, 2013 and 2012, the exercise of dilutive stock options and expected vesting of time-based and market-based restricted stock were included.

	Fiscal				
(in thousands)	2016	2015 (1)	2014	2013	2012
Balance Sheet Data:					
Cash, cash equivalents, investments and restricted cash	$547,907	$498,614	$597,086	$525,040	$440,244
Working capital excluding discontinued operations	662,345	633,435	756,340	676,986	589,947
Total assets excluding discontinued operations	982,444	904,466	944,448	862,994	815,609
Long-term debt and current portion of long-term debt	—	—	—	—	—
Long-term and current portion of financing obligation	17,318	17,003	19,616	19,396	—
Shareholders' equity	806,518	769,249	789,242	716,665	643,667

(1) As described in Note 2 to Consolidated Financial Statements.

Table of Contents

Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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

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

Generally, words such as "may," "will," "should," "could," "anticipate," "expect," "intend," "estimate," "plan," "continue," "g "believe," or the negative of or other variations on these and other similar expressions identify forward-looking statements. These forward-looking statements are made only as of the date of this filing. We do not undertake to update or revise the forward-looking statements, whether as a result of new information, future events or otherwise. Forward-looking statements are based on current expectations and involve risks and uncertainties. Our future results could differ significantly from those expressed or implied by our forward-looking statements. These risks and uncertainties include, without limitation, those described below and under the heading "Risk Factors" in this Annual Report on Form 10-K (the "Annual Report") and our other reports and registration statements filed from time to time with the Securities and Exchange Commission. This discussion should be read in conjunction with the Consolidated Financial Statements and Notes included in this report, as well as our audited financial statements included in the Annual Report.

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

Our Management's Discussion and Analysis ("MD&A") is provided in addition to the accompanying consolidated financial statements and notes to assist readers in understanding our results of operations, financial condition, and cash flows. MD&A is organized as follows:

- Overview: Introduction of our operations, business environment, technology leadership, products and services, and Segments- Equipment and Expendable Tools
- Critical Accounting Policies
- Recent Accounting Pronouncements
- Results of Operations
- Liquidity and Capital Resources
- Other Obligations and Contingent Payments

Overview

For an overview of our business, see "Part I – Item 1. – Business"

24

Critical Accounting Policies

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

We believe the following critical accounting policies, which have been reviewed with the Audit Committee of our Board of Directors, reflect our more significant judgments and estimates used in the preparation of our consolidated financial statements.

Revenue Recognition

In accordance with ASC No. 605, Revenue Recognition, we recognize revenue when persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, the price is fixed or determinable, the collectability is reasonably assured, and customer acceptance, when applicable, has been received or we otherwise have been released from customer acceptance obligations. If terms of the sale provide for a customer acceptance period, revenue is recognized upon the expiration of the acceptance period or customer acceptance, whichever occurs first. Our standard terms are ex works (our factory), with title transferring to our customer at our loading dock or upon embarkation. We have a small percentage of sales with other terms, and revenue is recognized in accordance with the terms of the related customer purchase order.

Our business is subject to contingencies related to customer orders, including:

- Right of Return: A large portion of our revenue comes from the sale of machines used in the semiconductor assembly process. Other product sales relate to consumable products, which are sold in high-volume quantities, and are generally maintained at low stock levels at our customer's facility. Customer returns have historically represented a very small percentage of customer sales on an annual basis.
- Warranties: Our equipment is generally shipped with a one-year warranty against manufacturing defects. We establish 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.
- Conditions of Acceptance: Sales of our consumable products generally do not have customer acceptance terms. In certain cases, sales of our equipment have customer acceptance clauses which may require the equipment to perform in accordance with customer specifications or when installed at the customer's facility. In such cases, if the terms of acceptance are satisfied at our facility prior to shipment, the revenue for the equipment will be recognized upon shipment. If the terms of acceptance are satisfied at our customers' facilities, the revenue for the equipment will not be recognized until acceptance, which is typically obtained after installation and testing, is received from the customer.

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

Allowance for Doubtful Accounts

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

Inventories

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

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

Accounting for Impairment of Goodwill

The Company operates two reportable segments: Equipment and Expendable Tools. Goodwill was recorded for the acquisitions of Orthodyne Electronics Corporation ("Orthodyne") and Assembléon B.V. ("Assembléon") in 2009 and 2015, respectively.

ASC No. 350, Intangibles-Goodwill and Other ("ASC 350") requires goodwill and other intangible assets with indefinite lives to be reviewed for impairment annually, or more frequently if circumstances indicate a possible impairment. We assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying value. If, after assessing the qualitative factors, a company determines that it is not more likely than not that the fair value of a reporting unit is less than its carrying value, then performing the two-step impairment test is unnecessary. However, if a company concludes otherwise, then it is required to perform the first step of the two-step goodwill impairment test. If the carrying value of a reporting unit exceeds its fair value in the first step of the test, then a company is required to perform the second step of the goodwill impairment test to measure the amount of the reporting unit's goodwill impairment loss, if any.

In fiscal 2016 and 2015, the Company chose to bypass the qualitative assessment and proceed directly to performing the quantitative evaluation of the fair value of the reporting unit, to compare against the carrying value of the reporting unit.

As part of the annual evaluation, the Company performs an impairment test of its goodwill in the fourth quarter of each fiscal year to coincide with the completion of its annual forecasting and refreshing of its business outlook processes. On an ongoing basis, the Company monitors if a “triggering” event has occurred that may have the effect of reducing the fair value of a reporting unit below its respective carrying value. Adverse changes in expected operating results and/or unfavorable changes in other economic factors used to estimate fair values could result in a non-cash impairment charge in the future. As of October 1, 2016, no triggering events have occurred.

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

For further information on goodwill and other intangible assets, see Note 6 below.

Income Taxes

In accordance with ASC No. 740, Income Taxes, deferred income taxes are determined using the liability method. We record a valuation allowance to reduce our deferred tax assets to the amount we expect is more likely than not to be realized. While we have considered future taxable income and our ongoing tax planning strategies in assessing the need for the valuation allowance, if we were to determine that we would be able to realize our deferred tax assets in the future in excess of our net recorded amount, an adjustment to the deferred tax asset would increase income in the period such determination was made. Likewise, should we determine that we would not be able to realize all or part of our 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”), we account for uncertain tax positions taken or expected to be taken in the Company's income tax return. Under ASC 740.10, we utilize a two-step approach for evaluating uncertain tax positions. Step one, or recognition, requires us to determine if the weight of available evidence indicates a tax position is more likely than not to be sustained upon audit, including resolution of related appeals or litigation processes, if any. Step two, or measurement, is based on the largest amount of benefit, which is more likely than not to be realized on settlement with the taxing authority.

Equity-Based Compensation

We account for equity-based compensation under the provisions of ASC No. 718, Compensation-Stock Compensation ("ASC 718"). ASC 718 requires the recognition of the fair value of equity-based compensation in net income. Compensation expense associated with market-based restricted stock is determined using a Monte-Carlo valuation model, and compensation expense associated with time-based and performance-based restricted stock is determined based on the number of shares granted and the fair value on the date of grant. The fair value of our stock option awards are estimated using a Black-Scholes option valuation model.

The calculation of equity-based compensation costs requires us to estimate the number of awards that will be forfeited during the vesting period. We have estimated forfeitures at the time of grant based upon historical experience, and review the forfeiture rates periodically and make adjustments as necessary. In addition, the fair value of equity-based awards is amortized over the vesting period of the award and we have elected to use the straight-line method for awards granted after the adoption of ASC 718. In general, equity-based awards vest annually over a three year period.

Our 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. Estimated attainment percentages and the corresponding equity-based compensation expense reported may vary from period to period.

RECENT ACCOUNTING PRONOUNCEMENTS

See Note 1 to our consolidated financial statements in Item 8 for a description of certain recent accounting pronouncements including the expected dates of adoption and effects on our consolidated results of operations and financial condition.

Table of Contents

RESULTS OF OPERATIONS

Results of Operations for fiscal 2016 and 2015

The following table reflects our income from operations for fiscal 2016 and 2015:

(dollar amounts in thousands)	Fiscal 2016	2015	$ Change	% Change
Net revenue	$627,192	$536,471	$90,721	16.9 %
Cost of sales	340,463	277,379	63,084	22.7 %
Gross profit	286,729	259,092	27,637	10.7 %
Selling, general and administrative	141,816	131,808	10,008	7.6 %
Research and development	92,374	90,033	2,341	2.6 %
Operating expenses	234,190	221,841	12,349	5.6 %
Income from operations	$52,539	$37,251	$15,288	41.0 %

Bookings and Backlog

A booking is recorded when a customer order is reviewed and it is determined that all specifications can be met, production (or service) can be scheduled, a delivery date can be set, and the customer meets our credit requirements. We use bookings to evaluate the results of our operations, generate future operating plans and assess the performance of our company. While we believe that this measure is useful in evaluating our business, this information should be considered as supplemental in nature and is not meant as a substitute for revenue recognized in accordance with GAAP. In addition, other companies, including companies in our industry, may calculate bookings differently or not at all, which reduces its usefulness as a comparative measure. Reconciliation of bookings to net revenue is not practicable. Our backlog consists of customer orders scheduled for shipment within the next twelve months. A majority of our orders are subject to cancellation or deferral by our customers with limited or no penalties. Also, customer demand for our products can vary dramatically without prior notice. Because of the volatility of customer demand, possibility of customer changes in delivery schedules or cancellations and potential delays in product shipments, our backlog as of any particular date may not be indicative of net revenue for any succeeding period.

The following tables reflect our bookings and backlog for fiscal 2016 and 2015:

(in thousands)	Fiscal 2016	2015
Bookings	$661,931	$491,427

(in thousands)	As of October 1, 2016	October 3, 2015
Backlog	$87,200	$52,500

Our net revenues for fiscal 2016 have increased as compared to our net revenues for fiscal 2015 due to strong customer demand. The semiconductor industry is volatile and our operating results have fluctuated significantly in the past. Customer demand for our products could weaken and lead to a decline in our net revenues.

Net Revenue

Approximately 92.4% and 91.2% of our net revenue for fiscal 2016 and 2015, respectively, was for shipments to customer locations outside of the U.S., primarily in the Asia/Pacific region. In the Asia/Pacific region, our customer base is also becoming more geographically concentrated as a result of economic and industry conditions. Approximately 33.7%, 31.6% and 25.4% of our net revenue for the fiscal 2016, 2015, and 2014 was for shipments to customers located in China.

Table of Contents

The following table reflects net revenue by business segment for fiscal 2016 and 2015:

	Fiscal			
(dollar amounts in thousands)	2016	2015	$ Change	% Change
Equipment	$562,463	$472,002	$90,461	19.2 %
Expendable Tools	64,729	64,469	260	0.4 %
Total net revenue	$627,192	$536,471	$90,721	16.9 %

Equipment

The following table reflects the components of Equipment net revenue change between fiscal 2016 and 2015:

	Fiscal 2016 vs. 2015		
(in thousands)	Price	Volume	$ Change
Equipment	$(32,420)	$122,881	$90,461

For fiscal 2016, the higher Equipment net revenue as compared to fiscal 2015 was primarily due to the higher volume driven by the strong demand from our customers and inclusion of the additional revenue resulting from the Assembléon acquisition. This was partially offset by the unfavorable price variance in our ball bonders and Advanced Packaging products. The unfavorable price variance was due to the unfavorable customer mix.

Expendable Tools

The following table reflects the components of Expendable Tools net revenue change between fiscal 2016 and 2015:

	Fiscal 2016 vs. 2015		
(in thousands)	Price	Volume	$ Change
Expendable Tools	$(2,970)	$3,230	$ 260

For fiscal 2016, the Expendable Tools net revenue has remained generally consistent as compared to fiscal 2015. The higher volume was primarily due to higher demand in wire bonding tools and wedge bonding tools. This was partially offset by a price reduction.

Gross Profit

The following table reflects gross profit by business segment for fiscal 2016 and 2015:

	Fiscal			
(dollar amounts in thousands)	2016	2015	$ Change	% Change
Equipment	$249,805	$221,961	$27,844	12.5 %
Expendable Tools	36,924	37,131	(207)	(0.6)%
Total gross profit	$286,729	$259,092	$27,637	10.7 %

The following table reflects gross profit as a percentage of net revenue by business segment for fiscal 2016 and 2015:

	Fiscal		Basis Point
	2016	2015	Change
Equipment	44.4%	47.0%	(260)
Expendable Tools	57.0%	57.6%	(60)
Total gross margin	45.7%	48.3%	(260)

Equipment

The following table reflects the components of Equipment gross profit change between fiscal 2016 and 2015:

	Fiscal 2016 vs. 2015			
(in thousands)	Price	Cost	Volume	$ Change
Equipment	$(32,420)	$2,174	$58,090	$27,844

Table of Contents

For fiscal 2016, the higher Equipment gross profit as compared to fiscal 2015 was primarily due to the higher volume described above and lower cost. The higher volume was driven by the strong demand from our customers and inclusion of the additional revenue resulting from the Assembléon acquisition. The lower cost was primarily due to product mix. Higher volume and lower cost were partially offset by the unfavorable price variance in our ball bonders and Advanced Packaging products. The unfavorable price variance was due to the unfavorable customer mix.

Expendable Tools

The following table reflects the components of Expendable Tools gross profit change between fiscal 2016 and 2015:

	Fiscal 2016 vs. 2015			
(in thousands)	Price	Cost	Volume	$ Change
Expendable Tools	$(2,970)	$723	$2,040	$(207)

For fiscal 2016, the Expendable Tools gross profit has remained generally consistent as compared to fiscal 2015. The price reduction was partially offset by higher demand in wire bonding tools and wedge bonding tools.

Operating Expenses

The following table reflects operating expenses as a percentage of net revenue for fiscal 2016 and 2015:

	Fiscal		Basis point
	2016	2015	change
Selling, general & administrative	22.6%	24.6%	(200)
Research & development	14.7%	16.8%	(210)
Total	37.3%	41.4%	(410)

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

For fiscal 2016, higher SG&A as compared to fiscal 2015 was primarily due to $7.9 million of expenses relating to the restructuring program, $7.6 million increase due to inclusion of SG&A expenses resulting from the Assembléon acquisition, $3.2 million increase in incentive compensation due to better current fiscal year performance and a $2.6 million unfavorable net foreign exchange variance. These were partially offset by lower staff costs of $7.0 million due to streamlining of our international operations and functions, and lower amortization expenses of $4.7 million relating to the wedge bonder developed technology which were fully amortized in fiscal year 2015.

Research and Development (“R&D”)

For fiscal 2016, higher R&D expenses as compared to fiscal 2015 were primarily due to additional investment in the development of advanced packaging products. This was partially offset by lower staff costs.

Income from Operations

For fiscal 2016, total income from operations was higher by $15.3 million as compared to fiscal 2015. This was primarily due to higher revenue for equipment sales and partially offset by higher operating expenses as explained above.

Interest Income and Expense

The following table reflects interest income and interest expense for fiscal 2016 and 2015:

	Fiscal			
(dollar amounts in thousands)	2016	2015	$ Change	% Change
Interest income	$3,318	$1,637	$ 1,681	102.7 %
Interest expense	$(1,107)	$(1,183)	$ 76	(6.4)%

For fiscal 2016, interest income was higher as compared to fiscal 2015. This was primarily due to higher returns and a larger cash and cash equivalent balance.

Interest expense for fiscal 2016 and 2015 was attributable to the interest on financing obligation relating to the new building, which was incurred subsequent to the completion of the new building in December 2013 (Refer to Note 10 of our Consolidated Financial Statements included in Item 8 of this report).

Provision for Income Taxes

The following table reflects the provision for income taxes and the effective tax rate for fiscal 2016 and 2015:

	Fiscal	
(in thousands)	2016	2015
Income from operations before income taxes	$54,750	$37,705
Provision for income taxes	7,638	(12,934)
Net income	$47,112	$50,639
Effective tax rate	14.0 %	(34.3)%

For fiscal 2016, the effective income tax rate increased from fiscal 2015 by 48.3% due primarily to a lower tax benefit of $9.7 million recorded in 2016 as compared to $19.7 million recorded in 2015 related to the reduction in deferred tax liabilities as a result of the change in permanent reinvestment assertion, a one-time tax expense of $4.9 million recorded in 2016 arising from a settlement reached with a foreign tax authority, and a restructuring related tax expense of $4.2 million.

For fiscal 2015, the effective income tax rate differed from the federal statutory rate due primarily to tax benefits from the reduction in deferred tax liabilities on certain unremitted foreign earnings as a result of the change in permanent reinvestment assertion due to a business structure reorganization, tax benefits from research and development expenditures, profits from foreign operations subject to a lower statutory tax rate than the federal rate, and the impact of tax holidays, offset by an increase in valuation allowance against certain foreign deferred tax assets, foreign earnings not permanently reinvested, and foreign withholding taxes.

Our future effective tax rate would be affected if earnings were lower than anticipated in countries where we are subjected to lower statutory rates and higher than anticipated in countries where we are subjected to 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. In addition, changes in assertion for foreign earnings permanently or non-permanently reinvested as a result of changes in facts and circumstances could significantly impact the effective tax rate. In fiscal 2016, the Company restructured its entities resulting in a change in its permanent reinvestment assertion outside the United States. During the year ended October 1, 2016, approximately $9.7 million in deferred tax liability was reversed and recorded as a tax benefit due to the change in the assertion. As part of the plan, the Company also recorded a restructuring related tax expense of $4.2 million for the transfers and exchanges of certain foreign subsidiaries. We regularly assess the effects resulting from these factors to determine the adequacy of our provision for income taxes.

It is reasonably possible that the amount of the unrecognized tax benefit with respect to certain unrecognized tax positions will increase or decrease during the next 12 months due to the expected lapse of statutes of limitation and/or settlements of tax examinations. We cannot practicably estimate the financial outcomes of these examinations.

Table of Contents

Results of Operations for fiscal 2015 and 2014

The following table reflects our income from operations for fiscal 2015 and 2014:

	Fiscal			
(dollar amounts in thousands)	2015	2014	$ Change	% Change
Net revenue	$536,471	$568,569	$(32,098)	(5.6)%
Cost of sales	277,379	295,015	(17,636)	(6.0)%
Gross profit	259,092	273,554	(14,462)	(5.3)%
Selling, general and administrative	131,808	113,514	18,294	16.1 %
Research and development	90,033	83,056	6,977	8.4 %
Operating expenses	221,841	196,570	25,271	12.9 %
Income from operations	$37,251	$76,984	$(39,733)	(51.6)%

Bookings and Backlog

The following tables reflect our bookings and backlog for fiscal 2015 and 2014:

	Fiscal	
(in thousands)	2015	2014
Bookings	$491,427	$595,565

	As of	
(in thousands)	October 3, 2015	September 27, 2014
Backlog	$52,500	$79,100

Our net revenues for fiscal 2015 decreased as compared to our net revenues for fiscal 2014 due to reduced customer demand.

Net Revenue

Approximately 91.2% and 94.4% of our net revenue for fiscal 2015 and 2014, respectively, was for shipments to customer locations outside of the U.S., primarily in the Asia/Pacific region.

The following table reflects net revenue by business segment for fiscal 2015 and 2014:

	Fiscal			
(dollar amounts in thousands)	2015	2014	$ Change	% Change
Equipment	$472,002	503,049	$(31,047)	(6.2)%
Expendable Tools	64,469	65,520	(1,051)	(1.6)%
Total net revenue	$536,471	$568,569	$(32,098)	(5.6)%

Equipment

The following table reflects the components of Equipment net revenue change between fiscal 2015 and 2014:

	Fiscal 2015 vs. 2014		
(in thousands)	Price	Volume	$ Change
Equipment	$2,341	$(33,388)	$(31,047)

For fiscal 2015, the lower Equipment net revenue as compared to fiscal 2014 was primarily due to lower volume of our ball bonders sales. This was partially offset by higher volume in our wedge bonders and additional revenue resulting from Assembléon acquisition. The lower volume for ball bonders sales was mainly attributable to the lower equipment utilization rate, and therefore lower demand from our customers. The lower volume was partially offset by the better pricing due to favorable customer mix.

Expendable Tools

The following table reflects the components of Expendable Tools net revenue change between fiscal 2015 and 2014:

32

Table of Contents

(in thousands)	Fiscal 2015 vs. 2014 Price	Volume	$ Change
Expendable Tools	$(538)	$(513)	$(1,051)

For fiscal 2015, the lower Expendable Tools net revenue as compared to fiscal 2014 was primarily due to lower volume in wedge bonding tools business and a price reduction in our wire bonding tools business.

Gross Profit

The following table reflects gross profit by business segment for fiscal 2015 and 2014:

(dollar amounts in thousands)	Fiscal 2015	2014	$ Change	% Change
Equipment	$221,961	$234,115	$(12,154)	(5.2)%
Expendable Tools	37,131	39,439	(2,308)	(5.9)%
Total gross profit	$259,092	$273,554	$(14,462)	(5.3)%

The following table reflects gross profit as a percentage of net revenue by business segment for fiscal 2015 and 2014:

	Fiscal 2015	2014	Basis Point Change
Equipment	47.0%	46.5%	50
Expendable Tools	57.6%	60.2%	(260)
Total gross margin	48.3%	48.1%	20

Equipment

The following table reflects the components of Equipment gross profit change between fiscal 2015 and 2014:

(in thousands)	Fiscal 2015 vs. 2014 Price	Cost	Volume	$ Change
Equipment	$2,341	$(1,825)	$(12,670)	$(12,154)

For fiscal 2015, the lower Equipment gross profit as compared to fiscal 2014 was primarily due to the lower volume of equipment sales and higher costs. The lower volume was mainly due to lower sales of ball bonders offset by higher volume in our wedge bonders and additional revenue resulting from Assembléon acquisition. The lower volume in ball bonders was attributable to the lower equipment utilization rate, and therefore lower demand from our customers. The higher costs were due to changes in the product mix on our ball bonders. The lower volume and higher costs were partially offset by better pricing due to favorable customer mix.

Expendable Tools

The following table reflects the components of Expendable Tools gross profit change between fiscal 2015 and 2014:

(in thousands)	Fiscal 2015 vs. 2014 Price	Cost	Volume	$ Change
Expendable Tools	$(538)	$(682)	$(1,088)	$(2,308)

For fiscal 2015, the lower Expendable Tools gross profit as compared to fiscal 2014 was primarily due to lower volume from our wedge bonding business.

Table of Contents

Operating Expenses

The following table reflects operating expenses as a percentage of net revenue for fiscal 2015 and 2014:

	Fiscal		Basis point
	2015	2014	change
Selling, general & administrative	24.6 %	20.0 %	460
Research & development	16.8 %	14.6 %	220
Total	41.4 %	34.6 %	680

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

For fiscal 2015, higher SG&A as compared to fiscal 2014 was primarily due to additional SG&A expenses of $24.6 million resulting from Assembléon acquisition and net unfavorable $0.5 million of restructuring cost and other severance expenses. This was partially offset by a decrease in incentive compensation of $6.8 million as a result of lower fiscal 2015 profit.

Research and Development (“R&D”)

For fiscal 2015, higher R&D expenses as compared to fiscal 2014 was primarily due to additional investment in the development of advanced packaging products.

Income from Operations

For fiscal 2015, total income from operations was lower by $39.7 million as compared to fiscal 2014. This was due primarily to lower revenue for equipment sales and higher operating expenses as explained above.

Interest Income and Expense

The following table reflects interest income and interest expense for fiscal 2015 and 2014:

	Fiscal			
(dollar amounts in thousands)	2015	2014	$ Change	% Change
Interest income	1,637	1,197	$ 440	36.8 %
Interest expense: cash	(1,183)	(1,048)	$ (135)	12.9 %

Interest income in fiscal 2015 was derived from short term investments and cash and cash equivalents balance.

The higher interest expense for fiscal 2015 was attributable to the interest on financing obligation relating to the new building, which was incurred subsequent to the completion of the new building in December 2013 (Refer to Note 10 of our Consolidated Financial Statements included in Item 8 of this report).

Provision for Income Taxes

The following table reflects the provision for income taxes and the effective tax rate for fiscal 2015 and 2014:

	Fiscal	
(in thousands)	2015	2014
Income from operations before income taxes	$37,705	$77,133
Provision for income taxes	(12,934)	14,145
Net income	$50,639	$62,988
Effective tax rate	(34.3)%	18.3 %

For fiscal 2015, the effective income tax rate decreased from fiscal 2014 by 52.6% due primarily to a net $19.7 million decrease of deferred tax liabilities on certain unremitted foreign earnings as a result of the change in permanent reinvestment assertion, and $4.0 million tax benefits from research and development expenditures, offset by lower profits in foreign jurisdictions and an increase in valuation allowance against certain foreign deferred tax assets.

For fiscal 2014, the effective income tax rate differed from the federal statutory rate due primarily to a shift in earnings to tax jurisdictions with higher effective tax rates than the U.S. statutory rate and the impact of tax holidays, offset by an increase in deferred tax liabilities on unremitted earnings and additional domestic and foreign expenses or benefits related to returns filed in the period.
Our future effective tax rate would be affected if earnings were lower than anticipated in countries where we are subjected to lower statutory rates and higher than anticipated in countries where we are subjected to 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. In addition, changes in assertion for foreign earnings permanently or non-permanently reinvested as a result of changes in facts and circumstances could significantly impact the effective tax rate. During the year ended October 3, 2015, the Company executed a business structure reorganization resulting in a change in its permanent reinvestment assertion outside the United States. Approximately $19.7 million of deferred tax liability was reversed and recorded as a tax benefit. 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 October 1, 2016 and October 3, 2015:

(dollar amounts in thousands)	As of October 1, 2016	October 3, 2015	Change
Cash and cash equivalents	$547,907	$498,614	$49,293
Percentage of total assets	55.8 %	55.1 %	

The following table reflects summary Consolidated Statement of Cash Flow information for fiscal 2016 and 2015:

(in thousands)	Fiscal 2016	2015
Net cash provided by operating activities	$68,407	$87,875
Net cash used in investing activities	(5,165)	(94,109)
Net cash used in financing activities	(14,486)	(84,459)
Effect of exchange rate changes on cash and cash equivalents	537	1,326
Changes in cash and cash equivalents	49,293	(89,367)
Cash and cash equivalents, beginning of period	498,614	587,981
Cash and cash equivalents, end of period	547,907	498,614
Short-term investments	—	—
Total cash and investments	$547,907	$498,614

Fiscal 2016

Net cash provided by operating activities was primarily the result of net income of $47.1 million, non-cash adjustments of $14.1 million and working capital changes of $7.2 million. The change in working capital was primarily driven by increase in accounts payable and accrued expenses and other current liabilities of $34.1 million and income tax payable of $10.5 million. This was partially offset by an increase in accounts and notes receivable of $22.1 million, an increase in net inventories of $16.3 million and others of $1.1 million.
The increase in accounts payable and accrued expenses and other current liabilities and the increase in net inventories was primarily due to higher manufacturing activity in the fourth quarter of fiscal 2016 as compared to fourth quarter of fiscal 2015 in anticipation of higher sales in the first quarter of fiscal 2017. The higher income taxes payable was mainly due to additional tax liability arising from a settlement reached with a foreign tax authority. The increase in accounts receivables was due to higher sales in the fourth quarter of fiscal 2016 as compared to the fourth quarter of fiscal 2015. The lower sales in fourth quarter of fiscal 2015 was mainly attributable to lower equipment utilization rate due to the economic conditions, and therefore lower demand from our customers.
Net cash used in investing activities was primarily due to capital expenditures of $6.2 million offset by proceeds from sales of property, plant and equipment of $1.1 million.

Net cash used in financing relates to the repurchase of common stock of $14.6 million and repayment of loans of $0.5 million. This was offset by proceeds from the exercise of stock options of $0.4 million.

Fiscal 2015

Net cash provided by operating activities was primarily the result of net income of $50.6 million, non-cash adjustments of $11.4 million and working capital changes of $25.8 million. The change in working capital was primarily driven by a decrease in accounts receivable of $72.3 million. This was partially offset by decreases in accounts payable and accrued expenses and other current liabilities of $32.8 million and an increase in inventories of $14.5 million.

The lower revenues in the fourth quarter of fiscal 2015 as compared to fourth quarter of fiscal 2014 resulted in a reduction of accounts receivable and lower accounts payable, accrued expenses and other current liabilities. The increase in inventories was due to higher inventories held at year-end in anticipation of a scheduled scale down of manufacturing activity in the first quarter of fiscal 2016 and the lower revenues in the fourth quarter of fiscal 2015 as compared to fourth quarter of fiscal 2014.

Net cash used in investing activities was primarily due to net cash outflow for the Assembléon acquisition of $93.2 million, purchase of short-term investments of $1.6 million and capital expenditures of $10.3 million. This was offset by the maturity of short-term investments of $10.8 million and proceeds from sales of property, plant and equipment of $0.2 million.

Net cash used in financing relates to the repurchase of common stock of $75.7 million and repayment of loans of $10.8 million related to the acquired business. This was partially offset by proceeds from short term loans of $0.8 million and proceeds from the exercise of stock options of $0.7 million.

Fiscal 2017 Liquidity and Capital Resource Outlook

We expect our fiscal 2017 capital expenditures to be approximately $16.0 million. Expenditures are anticipated to be primarily used for R&D projects, enhancements to our manufacturing operations in Asia, improvements to our information technology infrastructure and leasehold improvements for our facilities.

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

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

As of October 1, 2016 and October 3, 2015, approximately $479.7 million and $488.0 million of cash, cash equivalents and short-term investments were held by the Company's foreign subsidiaries, respectively. The cash amounts not available for use in the U.S. without incurring additional U.S. income tax as of October 1, 2016 and October 3, 2015, were approximately $428.4 million and $343.5 million, respectively.

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

Table of Contents

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

During the year ended October 1, 2016, the Company repurchased a total of 1.4 million shares of common stock at a cost of $14.6 million under the repurchase program. As of October 1, 2016, our remaining stock repurchase authorization under the repurchase program was approximately $7.0 million.

Other Obligations and Contingent Payments

In accordance with U.S. generally accepted accounting principles, certain obligations and commitments are not required to be included in the Consolidated 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 October 1, 2016 are appropriately not included in the Consolidated Balance Sheets and Statements of Operations included in this Form 10-K; however, they have been disclosed in the table below for additional information.

The following table reflects obligations and contingent payments under various arrangements as of October 1, 2016:

		Payments due by fiscal period			
(in thousands)	Total	Less than 1 year	1 - 3 years	3 - 5 years	More than 5 years
Current and long-term liabilities:					
Pension plan obligations	$3,378	$—	$ —	$ —	$ 3,378
Severance (1)	2,773	—	721	—	2,052
Operating lease retirement obligations (2)	1,720	69	433	—	1,218
Long-term income taxes payable	4,891	—	—	—	4,891
Total Obligations and Contingent Payments reflected on the Consolidated Financial Statements	$12,762	$69	$ 1,154	$ —	$ 11,539
Contractual Obligations:					
Inventory purchase obligations (3)	$102,423	102,423	$ —	$ —	$ —
Operating lease obligations (4)	27,316	5,087	7,163	5,876	9,190
Total Obligations and Contingent Payments not reflected on the Consolidated Financial Statements	$129,739	$107,510	$ 7,163	$ 5,876	$ 9,190

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

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

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

(4) We have minimum rental commitments under various leases (excluding taxes, insurance, maintenance and repairs, which are also paid by us) primarily for various facility and equipment leases, which expire periodically through 2026 (not including lease extension options, if applicable).

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

In accordance with ASC No. 840, Leases ("ASC 840"), the Company was considered to be the owner of its headquarters during the construction phase due to its involvement in the asset construction. As a result of the Company's continued involvement during the lease term, the Company did not fulfill the criteria to apply sale-leaseback accounting under ASC 840. Therefore, at completion, the building remained on the Consolidated Balance Sheet, and the corresponding financing obligation was reclassified to long-term liability. As of October 1, 2016, we recorded a financing obligation of $16.7 million. The financing obligation is not reflected in the table above.

Off-Balance Sheet Arrangements

Credit facilities and Bank Guarantees

On November 22, 2013, the Company obtained a $5.0 million credit facility with Citibank in connection with the issuance of a bank guarantee for operational purposes. As of October 1, 2016, the outstanding amount is $3.0 million.

On March 21, 2016, the Company entered into an Uncommitted Revolving Credit Agreement with United Overseas Bank Limited, New York Agency ("UOB"), providing for a $25 million revolving credit facility (the "2016 Credit Facility"). The 2016 Credit Facility is an unsecured revolving credit facility of $25 million with a term of one year. The proceeds of the 2016 Credit Facility may be used for the Company's general corporate purposes. As of October 1, 2016, there was no outstanding amount under the 2016 Credit Facility and we were in compliance with the covenants described in the 2016 Credit Facility.

As of October 1, 2016, we did not have any other off-balance sheet arrangements, such as contingent interests or obligations associated with variable interest entities.

Item 7A. - QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Risk

Our available-for-sale securities, if applicable, may consist of short-term investments in highly rated debt instruments of the U.S. Government and its agencies, financial institutions, and corporations. We continually monitor our exposure to changes in interest rates and credit ratings of issuers with respect to any available-for-sale securities and target an average life to maturity of less than 18 months. Accordingly, we believe that the effects to us of changes in interest rates and credit ratings of issuers are limited and would not have a material impact on our financial condition or results of operations. As of October 1, 2016, we had no available-for-sale investments.

Foreign Currency Risk

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

Based on our foreign currency exposure as of October 1, 2016, a 10.0% fluctuation could impact our financial position, results of operations or cash flows by $2.0 to $3.0 million. Our attempts to hedge against these risks may not be successful and may result in a material adverse impact on our financial results and cash flow.

During fiscal 2016, we entered into foreign exchange forward contracts to hedge a portion of our forecasted foreign currency-denominated expenses in the normal course of business and, accordingly, they are not speculative in nature. These foreign exchange forward contracts have maturities of up to twelve months. We have foreign exchange forward contracts with a notional amount of $29.0 million outstanding as of October 1, 2016. There were no foreign exchange forward contracts or other instruments as of October 3, 2015.

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The consolidated financial statements of Kulicke and Soffa Industries, Inc. listed in the index appearing under Item 15 (a)(1) herein are filed as part of this Report under this Item 8.

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of Kulicke & Soffa Industries, Inc.:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statement of operations, comprehensive income, changes in shareholders’ equity, and cash flows present fairly, in all material respects, the financial position of Kulicke & Soffa Industries, Inc. and its subsidiaries at October 1, 2016 and October 3, 2015, and the results of their operations and their cash flows for each of the three years in the period ended October 1, 2016 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the index appearing under Item 15(a)(2) presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of October 1, 2016, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements and financial statement schedule, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management’s Report on Internal Control over Financial Reporting under Item 9A. Our responsibility is to express opinions on these financial statements, on the financial statement schedule, and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP

Singapore
November 17, 2016

Table of Contents

KULICKE AND SOFFA INDUSTRIES, INC.

CONSOLIDATED BALANCE SHEETS
(in thousands)

	As of October 1, 2016	October 3, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	$547,907	$498,614
Accounts and notes receivable, net of allowance for doubtful accounts of $506 and $621, respectively	130,455	108,596
Inventories, net	87,295	79,096
Prepaid expenses and other current assets	15,285	16,937
Deferred income taxes	—	4,126
Total current assets	780,942	707,369
Property, plant and equipment, net	50,342	53,234
Goodwill	81,272	81,272
Intangible assets, net	50,810	57,471
Other assets	19,078	5,120
TOTAL ASSETS	$982,444	$904,466
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$41,813	$25,521
Accrued expenses and other current liabilities	63,954	45,971
Income taxes payable	12,830	2,442
Total current liabilities	118,597	73,934
Financing obligation	16,701	16,483
Deferred income taxes	27,697	33,958
Other liabilities	12,931	10,842
TOTAL LIABILITIES	$175,926	$135,217
Commitments and contingent liabilities (Note 16)		
SHAREHOLDERS' EQUITY:		
Preferred stock, without par value:		
Authorized 5,000 shares; issued - none	$—	$—
Common stock, no par value:		
Authorized 200,000 shares; issued 83,231 and 82,643 respectively; outstanding 70,420 and 71,240 shares, respectively	498,676	492,339
Treasury stock, at cost, 12,811 and 11,403 shares, respectively	(139,407)	(124,856)
Retained earnings	449,975	402,863
Accumulated other comprehensive loss	(2,726)	(1,097)
TOTAL SHAREHOLDERS' EQUITY	$806,518	$769,249
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$982,444	$904,466

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

Table of Contents

KULICKE AND SOFFA INDUSTRIES, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share data)

	Fiscal		
	2016	2015	2014
Net revenue	$627,192	$536,471	$568,569
Cost of sales	340,463	277,379	295,015
Gross profit	286,729	259,092	273,554
Selling, general and administrative	141,816	131,808	113,514
Research and development	92,374	90,033	83,056
Operating expenses	234,190	221,841	196,570
Income from operations	52,539	37,251	76,984
Interest income	3,318	1,637	1,197
Interest expense	(1,107)	(1,183)	(1,048)
Income from operations before income taxes	54,750	37,705	77,133
Income tax expense / (benefit)	7,638	(12,934)	14,145
Net income	$47,112	$50,639	$62,988
Net income per share:			
Basic	$		