

KULICKE & SOFFA INDUSTRIES INC  
Form 10-Q  
February 01, 2018  
UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10-Q

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

For the quarterly period ended December 30, 2017

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_ .

Commission File No. 0-121  
KULICKE AND SOFFA INDUSTRIES, INC.  
(Exact name of registrant as specified in its charter)  
PENNSYLVANIA 23-1498399  
(State or other jurisdiction of incorporation) (IRS Employer Identification No.)

23A Serangoon North Avenue 5, #01-01 K&S Corporate Headquarters, Singapore 554369  
(Address of principal executive offices and Zip Code)  
(215) 784-6000  
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of large accelerated filer, accelerated filer, smaller reporting company, and emerging growth company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer   
Non-accelerated filer  (Do not check if a smaller reporting company)  
Smaller reporting company   
Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

As of January 29, 2018, there were 70,611,761 shares of the Registrant's Common Stock, no par value, outstanding.



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## PART I. - FINANCIAL INFORMATION

## Item 1. – FINANCIAL STATEMENTS

## KULICKE AND SOFFA INDUSTRIES, INC.

## CONSOLIDATED CONDENSED BALANCE SHEETS

(in thousands)

Unaudited

	As of	
	December 30,	September 30,
	2017	2017
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$390,661	\$392,410
Restricted cash	528	530
Short-term investments	259,000	216,000
Accounts and other receivable, net of allowance for doubtful accounts of \$354 and \$79 respectively	173,777	198,480
Inventories, net	106,683	122,023
Prepaid expenses and other current assets	22,686	23,939
Total current assets	953,335	953,382
Property, plant and equipment, net	71,720	67,762
Goodwill	57,063	56,318
Intangible assets, net	60,586	62,316
Deferred income taxes	12,276	27,771
Equity investments	1,518	1,502
Other assets	2,088	2,056
<b>TOTAL ASSETS</b>	<b>\$1,158,586</b>	<b>\$1,171,107</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$68,370	\$51,354
Accrued expenses and other current liabilities	80,147	132,314
Income taxes payable	18,137	16,780
Total current liabilities	166,654	200,448
Financing obligation	16,130	16,074
Deferred income taxes	26,940	26,779
Income taxes payable	89,491	6,438
Other liabilities	9,000	8,432
<b>TOTAL LIABILITIES</b>	<b>\$308,215</b>	<b>\$258,171</b>
Commitments and contingent liabilities (Note 15)		
<b>SHAREHOLDERS' EQUITY:</b>		
Preferred stock, without par value:		
Authorized 5,000 shares; issued - none	\$—	\$—
Common stock, no par value:		
Authorized 200,000 shares; issued 84,508 and 83,953, respectively; outstanding 70,604 and 70,197 shares, respectively	510,736	506,515

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Treasury stock, at cost, 13,904 and 13,756 shares, respectively	(160,884	) (157,604	)
Retained earnings	496,655	561,986	
Accumulated other comprehensive income	3,864	2,039	
TOTAL SHAREHOLDERS' EQUITY	\$850,371	\$912,936	

TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY \$1,158,586 \$1,171,107

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

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CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS

(in thousands, except per share data)

Unaudited

	Three months ended	
	December 31, 2017	December 31, 2016
Net revenue	\$213,691	\$ 149,639
Cost of sales	114,652	81,321
Gross profit	99,039	68,318
Selling, general and administrative	30,218	29,532
Research and development	30,250	21,505
Operating expenses	60,468	51,037
Income from operations	38,571	17,281
Interest income	1,975	1,172
Interest expense	(266 )	(262 )
Income before income taxes	40,280	18,191
Income tax expense	109,633	2,608
Share of results of equity-method investee, net of tax	(16 )	—
Net (loss)/income	\$(69,337 )	\$ 15,583
Net (loss)/income per share:		
Basic	\$(0.98 )	\$ 0.22
Diluted	\$(0.98 )	\$ 0.22
Weighted average shares outstanding:		
Basic	70,577	70,854
Diluted	70,577	71,763

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

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CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands)

Unaudited

	Three months ended	
	December 31,	December 31,
	2017	2016
Net (loss)/income	\$(69,337)	\$ 15,583
Other comprehensive income:		
Foreign currency translation adjustment	2,370	(4,581 )
Unrecognized actuarial gain, on pension plan, net of tax	12	127
	2,382	(4,454 )
Derivatives designated as hedging instruments:		
Unrealized gain/(loss) on derivative instruments, net of tax	489	(1,592 )
Reclassification adjustment for (gain)/loss on derivative instruments recognized, net of tax	(1,046 )	529
Net decrease from derivatives designated as hedging instruments, net of tax	(557 )	(1,063 )
Total other comprehensive income/(loss)	1,825	(5,517 )
Comprehensive (loss)/income	\$(67,512)	\$ 10,066

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

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CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS

(in thousands)

Unaudited

	Three months ended	
	December 31,	December 31,
	2017	2016
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net (loss)/income	\$(69,337 )	\$ 15,583
Adjustments to reconcile net (loss)/income to net cash provided by operating activities:		
Depreciation and amortization	4,468	3,944
Equity-based compensation and employee benefits	3,109	3,601
Excess tax benefits from stock-based compensation	(50 )	—
Adjustment for doubtful accounts	348	(53 )
Adjustment for inventory valuation	1,352	1,058
Deferred income taxes	20,982	840
Gain on disposal of property, plant and equipment	21	44
Unrealized foreign currency translation	1,906	(7,020 )
Share of results of equity-method investee	(16 )	—
Changes in operating assets and liabilities:		
Accounts and other receivable	24,390	12,517
Inventory	13,883	2,339
Prepaid expenses and other current assets	1,259	1,105
Accounts payable, accrued expenses and other current liabilities	(36,551 )	(3,223 )
Income taxes payable	84,560	156
Other, net	9	(842 )
Net cash provided by operating activities	50,333	30,049
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of property, plant and equipment	(5,183 )	(2,676 )
Proceeds from sales of property, plant and equipment	—	17
Purchase of short-term investments	(133,000 )	—
Maturity of short-term investments	90,000	—
Net cash used in investing activities	(48,183 )	(2,659 )
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Payment on debts	(166 )	(142 )
Proceeds from exercise of common stock options	55	284
Repurchase of common stock	(3,280 )	—
Net cash (used in)/provided by financing activities	(3,391 )	142
Effect of exchange rate changes on cash, cash equivalents and restricted cash	(510 )	1,987
Changes in cash, cash equivalents and restricted cash	(1,751 )	29,519
Cash, cash equivalents and restricted cash at beginning of period*	392,940	423,907
Cash, cash equivalents and restricted cash at end of period	\$ 391,189	\$ 453,426
* Certain time deposits as at October 1, 2016 were previously reclassified from cash equivalents to short-term investments for comparative purposes.		
<b>CASH PAID FOR:</b>		
Interest	\$ 266	\$ 262
Income taxes	\$ 2,299	\$ 1,594



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

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KULICKE AND SOFFA INDUSTRIES, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

Unaudited

NOTE 1: BASIS OF PRESENTATION

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

The interim consolidated condensed financial statements are unaudited and, in management's opinion, include all adjustments (consisting only of normal and recurring adjustments) necessary for a fair statement of results for these interim periods. The interim consolidated condensed financial statements do not include all of the information and footnote disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) and should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2017, filed with the Securities and Exchange Commission, which includes Consolidated Balance Sheets as of September 30, 2017 and October 1, 2016, and the related Consolidated Statements of Operations, Statements of Other Comprehensive Income, Changes in Shareholders' Equity and Cash Flows for each of the years in the three-year period ended September 30, 2017. The results of operations for any interim period are not necessarily indicative of the results of operations for any other interim period or for a full year.

Fiscal Year

Each of the Company's first three fiscal quarters end on the Saturday that is 13 weeks after the end of the immediately preceding fiscal quarter. The fourth quarter of each fiscal year ends on the Saturday closest to September 30. Fiscal 2018 quarters end on December 30, 2017, March 31, 2018, June 30, 2018 and September 29, 2018. In fiscal years consisting of 53 weeks, the fourth quarter will consist of 14 weeks. Fiscal 2017 quarters ended on December 31, 2016, April 1, 2017, July 1, 2017 and September 30, 2017.

Nature of Business

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

Use of Estimates

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

estimates.

**Vulnerability to Certain Concentrations**

Financial instruments which may subject the Company to concentrations of credit risk as of December 30, 2017 and September 30, 2017 consisted primarily of trade receivables. The Company manages credit risk associated with investments by investing its excess cash in highly rated debt instruments of the U.S. Government and its agencies, financial institutions, and corporations. The Company has established investment guidelines relative to diversification and maturities designed to maintain safety and liquidity. These guidelines are periodically reviewed and modified as appropriate. The Company does not have any exposure to sub-prime financial instruments or auction rate securities.

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KULICKE AND SOFFA INDUSTRIES, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

Unaudited (continued)

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

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

Foreign Currency Translation and Remeasurement

The majority of the Company's business is transacted in U.S. dollars; however, the functional currencies of some of the Company's subsidiaries are their local currencies. In accordance with ASC No. 830, Foreign Currency Matters ("ASC 830"), for a subsidiary of the Company that has a functional currency other than the U.S. dollar, gains and losses resulting from the translation of the functional currency into U.S. dollars for financial statement presentation are not included in determining net income, but are accumulated in the cumulative translation adjustment account as a separate component of shareholders' equity (accumulated other comprehensive income / (loss)). Under ASC 830, cumulative translation adjustments are not adjusted for income taxes as they relate to indefinite investments in non-U.S. subsidiaries. Gains and losses resulting from foreign currency transactions are included in the determination of net income.

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

Derivative Financial Instruments

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

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

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

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

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KULICKE AND SOFFA INDUSTRIES, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

Unaudited (continued)

Cash Equivalents

The Company considers all highly liquid investments with original maturities of three months or less when purchased to be cash equivalents. Cash equivalents are measured at fair value based on level one measurement, or quoted market prices, as defined by ASC No. 820, Fair Value Measurements and Disclosures. As of December 30, 2017 and September 30, 2017, fair value approximated the cost basis for cash equivalents.

Investments

Investments, other than cash equivalents, are classified as “trading,” “available-for-sale” or “held-to-maturity,” in accordance with ASC No. 320, Investments-Debt & Equity Securities, and depending upon the nature of the investment, its ultimate maturity date in the case of debt securities, and management's intentions with respect to holding the securities. Investments classified as “trading” are reported at fair market value, with unrealized gains or losses included in earnings. Investments classified as “available-for-sale” are reported at fair market value, with net unrealized gains or losses reflected as a separate component of shareholders' equity (accumulated other comprehensive income / (loss)). The fair market value of trading and available-for-sale securities is determined using quoted market prices at the balance sheet date. Investments classified as held-to-maturity are reported at amortized cost. Realized gains and losses are determined on the basis of specific identification of the securities sold.

Equity Investments

The Company applies the equity method of accounting to investments that provide it with ability to exercise significant influence over the entities in which it lacks controlling financial interest and is not a primary beneficiary. Our proportionate share of the income or loss is recognized on a one-quarter lag and is recorded as share of results of equity-method investee, net of tax.

Allowance for Doubtful Accounts

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

Inventories

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

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

Property, Plant and Equipment

Property, plant and equipment are carried at cost. The cost of additions and those improvements which increase the capacity or lengthen the useful lives of assets are capitalized, while repair and maintenance costs are expensed as

incurred. Depreciation and amortization are provided on a straight-line basis over the estimated useful lives as follows: buildings 25 years; machinery, equipment, furniture and fittings 3 to 10 years; toolings 1 year; and leasehold improvements are based on the shorter of the life of lease or life of asset. Purchased computer software costs related to business and financial systems are amortized over a five-year period on a straight-line basis. Land is not depreciated.

#### Valuation of Long-Lived Assets

In accordance with ASC No. 360, Property, Plant & Equipment ("ASC 360"), the Company's property, plant and equipment is tested for impairment based on undiscounted cash flows when triggering events occur, and if impaired, written-down to fair value

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KULICKE AND SOFFA INDUSTRIES, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

Unaudited (continued)

based on either discounted cash flows or appraised values. ASC 360 also provides a single accounting model for long-lived assets to be disposed of by sale and establishes additional criteria that would have to be met to classify an asset as held for sale. The carrying amount of an asset or asset group is not recoverable to the extent it exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset or asset group. Estimates of future cash flows used to test the recoverability of a long-lived asset or asset group must incorporate the entity's own assumptions about its use of the asset or asset group and must factor in all available evidence.

ASC 360 requires that long-lived assets be tested for recoverability whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Such events include significant under-performance relative to historical internal forecasts or projected future operating results; significant changes in the manner of use of the assets; significant negative industry or economic trends; or significant changes in market capitalization. During the three months ended December 30, 2017, no "triggering" events occurred.

Accounting for Impairment of Goodwill

The Company operates two reportable segments: Capital Equipment and Aftermarket Products and Services ("APS"). Goodwill was recorded for the acquisitions of Orthodyne Electronics Corporation ("Orthodyne"), Assembléon B.V. ("Assembléon") and Liteq B.V. ("Liteq") in fiscal 2009, 2015 and 2017, 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 January 2017, the FASB issued ASU 2017-04, Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment. The new guidance eliminates the requirement to perform a hypothetical purchase price allocation to measure goodwill impairment. Under the new guidance the goodwill impairment test is performed by comparing the fair value of a reporting unit with its carrying amount, and recognizing an impairment charge for the amount by which the carrying amount of the reporting unit exceeds its fair value, although it cannot exceed the total amount of goodwill allocated to that reporting unit. This ASU will be effective for us beginning in our first quarter of 2021 and early adoption is permitted. During the third quarter of 2017, we elected to prospectively adopt ASU2017-04. This eliminates the requirement to perform step 2 of the goodwill impairment test.

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.

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 5 below.

#### Revenue Recognition

In accordance with ASC No. 605, Revenue Recognition, the Company recognizes revenue when persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, the price is fixed or determinable, the collectability is reasonably assured, and customer acceptance, when applicable, has been received or we otherwise have been released from customer acceptance obligations. If terms of the sale provide for a customer acceptance period, revenue is recognized upon the expiration

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KULICKE AND SOFFA INDUSTRIES, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

Unaudited (continued)

of the acceptance period or customer acceptance, whichever occurs first. Service revenue is generally recognized over the period that the services are provided.

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

Research and Development

The Company charges research and development costs associated with the development of new products to expense when incurred. In certain circumstances, pre-production machines that the Company intends to sell are carried as inventory until sold.

Income Taxes

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

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

Equity-Based Compensation

The Company accounts for equity-based compensation under the provisions of ASC No. 718, Compensation - Stock Compensation (“ASC 718”). ASC 718 requires the recognition of the fair value of the equity-based compensation in net income. Compensation expense associated with market-based restricted stock is determined using a Monte-Carlo valuation model, and compensation expense associated with time-based and performance-based restricted stock is determined based on the number of shares granted and the fair value on the date of grant. The fair value of the Company's stock option awards are estimated using a Black-Scholes option valuation model. In addition, the calculation of equity-based compensation costs requires that the Company estimate the number of awards that will be forfeited during the vesting period. The fair value of equity-based awards is amortized over the vesting period of the award and the Company elected to use the straight-line method for awards granted after the adoption of ASC 718.

Earnings per Share

Earnings per share (“EPS”) are calculated in accordance with ASC No. 260, Earnings per Share. Basic EPS include only the weighted average number of common shares outstanding during the period. Diluted EPS include the weighted average number of common shares and the dilutive effect of stock options, restricted stock and share unit awards and convertible subordinated notes outstanding during the period, when such instruments are dilutive.

In accordance with ASC No. 260.10.55, Earnings per Share - Implementation & Guidance, the Company treats all outstanding unvested share-based payment awards that contain rights to nonforfeitable dividends as participating in undistributed earnings with common shareholders. Awards of this nature are considered participating securities and the two-class method of computing basic and diluted EPS must be applied.

Accounting for Business Acquisitions

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

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NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

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The valuation of these tangible and identifiable intangible assets and liabilities is subject to further management review and may change materially between the preliminary allocation and end of the purchase price allocation period.

Restructuring charges

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

Recent Accounting Pronouncements

Restricted Cash

In November 2016, the FASB issued ASU 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash (a consensus of the FASB Emerging Issues Task Force). This update requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. We adopted this ASU in the first quarter of 2018 on a retrospective basis. As of December 30, 2017 and September 30, 2017, restricted cash was \$0.5 million. The adoption of this ASU did not have a material impact on our cash flows.

Income Taxes

In October 2016, the FASB issued ASU 2016-16, Accounting for Income Taxes: Intra-Entity Asset Transfers of Assets Other than Inventory. The new guidance requires the tax effects of intercompany transactions (other than transfers of inventory) to be recognized currently. The new guidance will be effective for public business entities in fiscal years beginning after December 15, 2017 (our fiscal 2019), including interim periods within those years, with an option to early adopt. The modified retrospective approach will be required for transition to the new guidance, with a cumulative-effect adjustment recorded in retained earnings as of the beginning of the period of adoption. We do not expect the adoption of this ASU itself to have a material impact on our financial statements. However, the ultimate impact of adopting this ASU will depend on the balance of intellectual property transferred between our subsidiaries as of the adoption date. We are currently evaluating the timing of the adoption of this ASU.

Stock Compensation

In March 2016, the FASB issued ASU 2016-09, Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting. This ASU identifies areas for simplification involving several aspects of accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, an option to recognize gross stock compensation expense with actual forfeitures recognized as they occur, as well as certain classifications on the statement of cash flows. We adopted this ASU as of the beginning of the first quarter of 2018 and elected to account for forfeitures when they occur, on a modified retrospective basis. The adoption impact on the consolidated balance sheet as of December 30, 2017 was a cumulative adjustment of \$1.4 million, decreasing the retained earnings and increasing capital surplus. We also recognized deferred tax assets of \$5.4 million with a corresponding increase in retained earnings. The adoption did not have any other material impacts on our financial statements.

In May 2017, the FASB issued ASU No. 2017-09, Compensation - Stock Compensation (Topic 718): Scope of Modification Accounting. This ASU specifies the modification accounting applicable to any entity which changes the terms or conditions of a share-based payment award. We elected to prospectively adopt this ASU as of the beginning of the first quarter of 2018. The adoption of this ASU did not have a material impact on our financial statements.

Leases

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842), which requires the recognition of lease assets and lease liabilities by lessees for those leases classified as operating leases under current GAAP. This ASU will be

effective for us beginning in our first quarter of fiscal 2020 and early adoption is permitted. The adoption of this ASU will result in an increase in our consolidated balance sheets for these right of use assets and corresponding liabilities. However, the ultimate impact of adopting this ASU will depend on the Company's lease portfolio as of the adoption date. We are currently evaluating the timing and other effects of the adoption of this ASU on our financial statements.

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NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

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Financial Instruments

In January 2016, the FASB issued ASU No. 2016-01, Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities (“ASU 2016-01”), which updates certain aspects of recognition, measurement, presentation and disclosure of financial instruments. We adopted this ASU as of the beginning of the first quarter of 2018. The adoption of this ASU did not have a material impact on our financial statements.

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

Derivatives and Hedging

In August 2017, the FASB issued ASU 2017-12, Targeted Improvements to Accounting for Hedging Activities (Topic 815). The new guidance expands and refines hedge accounting for both financial and non-financial risks. The new guidance also modifies disclosure requirements for hedging activities. The new guidance will be effective for us beginning in our first quarter of fiscal 2020, and early adoption is permitted in any interim period. The Company is currently evaluating the impact of the new guidance on its consolidated financial statements as well as whether to adopt the new guidance early.

Business Combinations

In January 2017, the FASB issued ASU 2017-01, Business Combinations (Topic 805): Clarifying the Definition of a Business. The new guidance provides a new framework for determining whether business development transactions should be accounted for as acquisitions (or disposals) of assets or businesses. This ASU will be effective for us beginning in our first quarter of 2019. Earlier application is permitted for acquisition or derecognition events that occurred prior to issuance date or effective date of the guidance only when the transaction has not been reported in financial statements that have been issued or made available for issuance. We have elected to prospectively adopt this ASU as of the beginning of the first quarter of 2018. The adoption of this ASU did not have a material impact on our financial statements.

Statement of Cash Flows

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments. This ASU addresses the classification of certain specific cash flow issues including debt prepayment or extinguishment costs, settlement of certain debt instruments, contingent consideration payments made after a business combination, proceeds from the settlement of certain insurance claims and distributions received from equity method investees. We have elected to prospectively adopt this ASU as of the beginning of the first quarter of 2018. The adoption of this ASU did not have a material impact on our financial statements.

Revenue Recognition

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606) (“ASU 2014-09”), which amends the existing accounting standards for revenue recognition. ASU 2014-09 is based on principles that govern the recognition of revenue at an amount an entity expects to be entitled when products are transferred to customers.

Subsequently, the FASB has issued the following standards related to ASU 2014-09: ASU No. 2016-08, Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (“ASU 2016-08”); ASU No. 2016-10, Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing (“ASU 2016-10”); ASU No. 2016-12, Revenue from Contracts with Customers (Topic 606): Narrow-Scope

Improvements and Practical Expedients (“ASU 2016-12”); and ASU No. 2016-20, Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers (“ASU 2016-20” and collectively, the “new revenue standards”).

The new revenue standards may be applied retrospectively to each prior period presented or retrospectively with the cumulative effect recognized as of the date of adoption. The new standard is effective for annual reporting periods beginning after December 15, 2017. The new standard permits companies to early adopt the new standard, but the Company will not early adopt the new standard and therefore the new standard will be effective for the Company in the first quarter of its fiscal 2019. We continue to review the impact of this guidance on revenue related activities, and are monitoring additional changes, modifications, clarifications or interpretations undertaken by the FASB. We do not expect the adoption of this ASU itself to have a material impact on our financial statements. However, the ultimate impact of adopting this ASU will depend on the Company's revenue portfolio as of the adoption date.

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NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

Unaudited (continued)

## NOTE 2: RESTRUCTURING

In fiscal 2016, the Company implemented a restructuring program to streamline its international operations and functions as well as to consolidate its organization structure to achieve our cost-reduction, productivity and efficiency initiatives. In fiscal 2017, the Company implemented a restructuring program to reallocate resources with respect to the EA/APMR ("Electronics Assembly/Hybrid") business unit.

The accrued cost as at December 30, 2017 of these restructuring programs is expected to be paid in fiscal 2018.

The following table is a summary of activity related to these restructuring programs for the three months ended December 30, 2017 and December 31, 2016:

	Three months ended December 30, 2017			
(in thousands)	Beginning of period (1)	Expenses (2)	Payments	End of period (1)
Accrued Severance and benefits	\$2,892	\$ (31 )	\$(864 )	\$1,997
Other exit costs	1,736	1	(271 )	1,466
	\$4,628	\$ (30 )	\$(1,135 )	\$3,463
	Three months ended December 31, 2016			
(in thousands)	Beginning of period (1)	Expenses (2)	Payments	End of period (1)
Accrued Severance and benefits	\$37	\$	—\$(37 )	\$—
Other exit costs	\$6,525	\$	—\$(2,892 )	\$3,633
	\$6,562	\$	—\$(2,929 )	\$3,633

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

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



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NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

Unaudited (continued)

## NOTE 3: BALANCE SHEET COMPONENTS

The following tables reflect the components of significant balance sheet accounts as of December 30, 2017 and September 30, 2017:

(in thousands)	As of	
	December 30, 2017	September 30, 2017
Short term investments, available-for-sale <sup>(1)</sup>	\$259,000	\$ 216,000
Inventories, net:		
Raw materials and supplies	\$51,936	\$ 44,239
Work in process	43,212	40,827
Finished goods	36,341	61,596
	131,489	146,662
Inventory reserves	(24,806 )	(24,639 )
	\$106,683	\$ 122,023
Property, plant and equipment, net:		
Land	\$2,182	\$ 2,182
Buildings and building improvements	51,018	50,910
Leasehold improvements	10,142	9,882
Data processing equipment and software	34,957	34,700
Machinery, equipment, furniture and fixtures	71,792	68,143
	170,091	165,817
Accumulated depreciation	(98,371 )	(98,055 )
	\$71,720	\$ 67,762
Accrued expenses and other current liabilities:		
Wages and benefits	\$24,932	\$ 47,411
Accrued customer obligations <sup>(2)</sup>	26,461	50,497
Commissions and professional fees	7,045	8,555
Deferred rent	1,918	1,930
Severance <sup>(3)</sup>	3,555	3,828
Other	16,236	20,093
	\$80,147	\$ 132,314

All short-term investments were classified as available-for-sale and were measured at fair value based on level one measurement, or quoted market prices, as defined by ASC 820. As of December 30, 2017 and September 30, 2017, (1) fair value approximated the cost basis for short-term investments. The Company did not recognize any realized gains or losses on the sale of investments during the three months ended December 30, 2017 and December 31, 2016.

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

(3) Includes the restructuring plan discussed in Note 2, severance payable in connection with the November 2017 departure of the Company's CFO of \$1.2 million, and other severance payments.



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NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

Unaudited (continued)

## NOTE 4: BUSINESS COMBINATIONS

## Acquisition of Liteq

On July 2, 2017, the Company, through a wholly owned subsidiary, entered into a Share Sale and Purchase Agreement (the "Agreement") with the shareholders of Liteq to purchase all of the outstanding equity interests of Liteq. Liteq is a lithography solutions provider for advanced packaging.

The purchase price consists of EUR 25.0 million (approximately \$28.6 million) cash paid at closing and additional potential earn-out payments based on Liteq's cumulative pre-tax earnings and cumulative engineering expenses for fiscal 2018 to 2022. The acquisition expands the Company's presence in the advanced packaging market.

The acquisition of Liteq was accounted for in accordance with ASC No. 805, Business Combinations, using the acquisition method. The Company has estimated the preliminary fair value of acquired assets and liabilities as of the date of acquisition based on information available. The valuation of these tangible and identifiable intangible assets and liabilities is subject to further management review and may change materially between the preliminary allocation and end of the purchase price allocation period of July 2, 2018. Any changes in these estimates may have a material impact on our Consolidated Condensed Statements of Operations or Consolidated Condensed Balance Sheets.

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

(in thousands)	July 2, 2017
Prepaid expenses and other current assets	\$ 199
Property, plant and equipment	107
Intangibles	18,060
Goodwill	10,253
Accounts payable	(157 )
Accrued expenses and other current liabilities	(103 )
Deferred tax liabilities	(1,240 )
Total purchase price, net of cash acquired	\$ 27,119

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

The valuation of identifiable intangible assets acquired, representing developed technology, reflects management's estimates based on, among other factors, use of established valuation methods. The developed technology was determined using the relief from royalty method, and is amortized over the period of estimated benefit using the straight-line method and the estimated useful lives of ten years. The straight-line method of amortization represents the Company's best estimate of the distribution of the economic value of the identifiable intangible assets. Goodwill represents the excess of the purchase price over the fair value of the net tangible and identifiable intangible assets acquired and includes the value of expected future cash flows of Liteq from expected synergies with our other affiliates and other unidentifiable intangible assets. None of the goodwill recorded as part of the acquisition will be deductible for income tax purposes.

In connection with the acquisition of Liteq, the Company recorded deferred tax liabilities relating to the acquired intangible assets, which are partially offset by the net amount of acquired net operating losses. The net amount of acquired net operating losses is comprised of net operating losses less the tax reserves and valuation allowance.

## Acquisition of Assembléon

In 2015, the Company, through a wholly owned subsidiary, acquired all of the outstanding equity interests of Assembléon. The cash purchase price of approximately \$97.4 million (EUR 80 million) consisted of \$72.5 million for 100% of the equity of Assembléon and \$24.9 million which was used by Assembléon to settle intercompany loans with its parent company.

As of December 30, 2017, \$5.0 million (EUR 4.2 million) was held in escrow until the conclusion of a legal proceeding for which the Company has indemnification rights under the share purchase agreement. The escrow has been released on January 18, 2018.

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Unaudited (continued)

## NOTE 5: GOODWILL AND INTANGIBLE ASSETS

## Goodwill

Intangible assets classified as goodwill are not amortized. The goodwill established in connection with our acquisitions represents the estimated future economic benefits arising from the assets we acquired that did not qualify to be identified and recognized individually. The goodwill also includes the value of expected future cash flows of the acquisitions, expected synergies with our other affiliates and other unidentifiable intangible assets. The Company performs an annual impairment test of its goodwill during the fourth quarter of each fiscal year, which coincides with the completion of its annual forecasting and refreshing of business outlook process.

The Company performed its annual impairment test in the fourth quarter of fiscal 2017 and concluded that no impairment charge was required. During the three months ended December 30, 2017, the Company reviewed qualitative factors to ascertain if a "triggering" event may have taken place that may have the effect of reducing the fair value of the reporting unit below its carrying value and concluded that no triggering event had occurred.

The following table summarizes the Company's recorded goodwill as of December 30, 2017 and September 30, 2017:

(in thousands)	As of	
	December 30, 2017	September 30, 2017
Capital Equipment	\$30,565	\$ 29,975
APS	26,498	26,343
	\$57,063	\$ 56,318

## Intangible Assets

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

The following table reflects net intangible assets as of December 30, 2017 and September 30, 2017:

(dollar amounts in thousands)	As of		Average estimated useful lives (in years)
	December 30, 2017	September 30, 2017	
Technology	\$92,446	\$ 92,140	7.0 to 15.0
Accumulated amortization	(42,204 )	(41,162 )	
Net technology	\$50,242	\$ 50,978	
Customer relationships	\$36,707	\$ 36,968	5.0 to 6.0
Accumulated amortization	(28,003 )	(27,398 )	
Net customer relationships	\$8,704	\$ 9,570	
Trade and brand names	\$7,472	\$ 7,515	7.0 to 8.0
Accumulated amortization	(5,832 )	(5,747 )	
Net trade and brand name	\$1,640	\$ 1,768	
Other intangible assets	\$2,500	\$ 2,500	1.9
Accumulated amortization	(2,500 )	(2,500 )	
Net other intangible assets	\$—	\$ —	
Net intangible assets	\$60,586	\$ 62,316	



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NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

Unaudited (continued)

The following table reflects estimated annual amortization expense related to intangible assets as of December 30, 2017:

(in thousands)	As of December 30, 2017
Remaining fiscal 2018	\$ 5,920
Fiscal 2019	7,894
Fiscal 2020	7,894
Fiscal 2021	5,718
Fiscal 2022 and onwards	33,160
Total amortization expense	\$ 60,586

**NOTE 6: CASH, CASH EQUIVALENTS, RESTRICTED CASH AND SHORT-TERM INVESTMENTS**

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

Cash, cash equivalents, restricted cash and short-term investments consisted of the following as of December 30, 2017:

(in thousands)	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
Current assets:				
Cash	\$ 85,663	\$ —	\$ —	\$ 85,663
Cash equivalents <sup>(1)</sup> :				
Money market funds	230,029	—	(11 )	230,018
Time deposits	55,006	—	—	55,006
Commercial paper	19,974	—	—	19,974
Total cash and cash equivalents	\$ 390,672	\$ —	\$ (11 )	\$ 390,661
Restricted Cash <sup>(1)</sup>	528	—	—	528
Total cash, cash equivalents, and restricted cash	\$ 391,200	\$ —	\$ (11 )	\$ 391,189
Short-term investments <sup>(1)</sup> :				
Time deposits	163,000	—	—	163,000
Deposits <sup>(2)</sup>	96,000	—	—	96,000
Total short-term investments	\$ 259,000	\$ —	\$ —	\$ 259,000
Total cash, cash equivalents, restricted cash and short-term investments	\$ 650,200	\$ —	\$ (11 )	\$ 650,189

(1) Fair value approximates cost basis.

(2) Represents deposits that require a notice period of three months for withdrawal.

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NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

Unaudited (continued)

Cash, cash equivalents, restricted cash and short-term investments consisted of the following as of September 30, 2017:

(in thousands)	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
Current assets:				
Cash	\$ 65,759	\$	—\$	—\$ 65,759
Cash equivalents <sup>(1)</sup> :				
Money market funds	232,069	—	—	232,069
Time deposits	89,087	—	—	89,087
Commercial paper	5,495	—	—	5,495
Total cash and cash equivalents	\$ 392,410	\$	—\$	—\$ 392,410
Restricted Cash <sup>(1)</sup>	530			530
Total cash, cash equivalents, and restricted cash	\$ 392,940	\$	—\$	—\$ 392,940
Short-term investments <sup>(1)</sup> :				
Time deposits	120,000	—	—	120,000
Deposits <sup>(2)</sup>	96,000	—	—	96,000
Total short-term investments	\$ 216,000	\$	—\$	—\$ 216,000
Total cash, cash equivalents, restricted cash and short-term investments	\$ 608,940	\$	—\$	—\$ 608,940

(1) Fair value approximates cost basis.

(2) Represents deposits that require a notice period of three months for withdrawal.

## NOTE 7: EQUITY INVESTMENTS

Equity investments consisted of the following as of December 30, 2017 and September 30, 2017:

(in thousands)	As of	
	December 30, 2017	September 30, 2017
Equity method investment	\$ 1,518	\$ 1,502

The Company has an investment in one of our strategic suppliers which provides the Company with the ability to exercise significant influence over the investment vehicle, in which it lacks a controlling financial interest and is not a primary beneficiary. Our share of gains and losses in the equity method investment is recognized on a one-quarter lag, and is reflected as share of results of equity-method investee, net of tax, in the accompanying Consolidated Condensed Statements of Operations.

## NOTE 8: FAIR VALUE MEASUREMENTS

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

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

We measure certain financial assets and liabilities at fair value on a recurring basis. There were no transfers between fair value measurement levels during the three months ended December 30, 2017.

Fair Value Measurements on a Nonrecurring Basis

Our non-financial assets such as intangible assets and property, plant and equipment are carried at cost unless impairment is deemed to have occurred. Our equity method investments are recorded at fair value only if an



impairment is recognized.

Fair Value of Financial Instruments

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NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

Unaudited (continued)

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

**NOTE 9: DERIVATIVE FINANCIAL INSTRUMENTS**

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

The foreign currency exposure of our operating expenses is generally hedged with foreign exchange forward contracts. The Company's foreign exchange risk management programs include using foreign exchange forward contracts with cash flow hedge accounting designation to hedge exposures to the variability in the U.S. dollar equivalent of forecasted non-U.S. dollar-denominated operating expenses. These instruments generally mature within twelve months. For these derivatives, we report the after-tax gain or loss from the effective portion of the hedge as a component of accumulated other comprehensive income (loss), and we reclassify it into earnings in the same period or periods in which the hedged transaction affects earnings and in the same line item on the Consolidated Condensed Statements of Operations as the impact of the hedged transaction.

The fair value of derivative instruments on our Consolidated Condensed Balance Sheet as of December 30, 2017 and September 30, 2017 was as follows:

(in thousands)	As of		September 30, 2017	
	December 30, 2017	Fair Value	Notional	Fair Value
	Amount	Asset Derivatives <sup>(1)</sup>	Amount	Asset Derivatives <sup>(1)</sup>
Derivatives designated as hedging instruments:				
Foreign exchange forward contracts <sup>(2)</sup>	\$28,502	\$ 796	\$36,404	\$ 1,353
Total derivatives	\$28,502	\$ 796	\$36,404	\$ 1,353

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

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

The effects of derivative instruments designated as cash flow hedges in our Consolidated Condensed Statements of Comprehensive Income for the three months ended December 30, 2017 and December 31, 2016 are as follows:

(in thousands)	Three months ended	
	December 30, 2017	December 31, 2016
Foreign exchange forward contract in cash flow hedging relationships:		
Net gain/(loss) recognized in OCI, net of tax <sup>(1)</sup>	\$796	\$ (1,592 )
Net gain/(loss) reclassified from accumulated OCI into income, net of tax <sup>(2)</sup>	\$1,046	\$ (529 )
Net gain recognized in income <sup>(3)</sup>	\$—	\$—

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

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

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



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NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

Unaudited (continued)

## NOTE 10: DEBT AND OTHER OBLIGATIONS

## Financing Obligation

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

Pursuant to ASC No. 840, Leases ("ASC 840"), we have classified the Building on our balance sheet as property, plant and equipment, which we are depreciating over its estimated useful life of 25 years. We concluded that the term of the financing obligation is 10 years. This is equal to the non-cancellable term of our lease agreement with the Landlord. At the inception of the lease, the asset and financing obligation recorded on the balance sheet was \$20.0 million, which was based on an interest rate of 6.3% over the Initial Term. As of December 30, 2017, the financing obligation related to the Building is \$16.9 million, which approximates fair value (Level 2). The financing obligation will be settled through a combination of periodic cash rental payments and the return of the leased property at the expiration of the lease. We do not report rent expense for the property, which is deemed owned for accounting purposes. Rather, rental payments required under the lease are considered debt service and applied to the deemed landlord financing obligation and interest expense. The Building and financing obligation are being amortized in a manner that will not generate a gain or loss upon lease termination.

## Credit Facilities and Bank Guarantees

On November 22, 2013, the Company obtained a \$5.0 million credit facility with Citibank in connection with the issuance of bank guarantees for operational purposes. As of December 30, 2017, the outstanding amount is \$3.5 million. In addition, the Company has other bank guarantees for operational purposes which are secured with corresponding deposits placed with the issuer banks. These amounts are shown as restricted cash in the Consolidated Condensed Balance Sheets.

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 an initial term of one year, and has been extended on the same terms by another year until March 20, 2018. The proceeds of the 2016 Credit Facility may be used for the Company's general corporate purposes. As of December 30, 2017, there was no outstanding amount under the 2016 Credit Facility and we were in compliance with the covenants described in the 2016 Credit Facility.

## NOTE 11: SHAREHOLDERS' EQUITY AND EMPLOYEE BENEFIT PLANS

## Common Stock and 401(k) Retirement Plan

The Company has a 401(k) retirement plan (the "Plan") for eligible U.S. employees. The Plan allows for employee contributions and matching Company contributions from 4% to 6% based upon terms and conditions of the 401(k) Plan.

The following table reflects the Company's contributions to the Plans during the three months ended December 30, 2017 and December 31, 2016:

(in thousands)	Three months ended	
	December 30, 2017	December 31, 2016
Cash	\$ 501	\$ 413
Stock Repurchase Program		

On August 15, 2017, 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 1, 2020. 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, cash equivalents and short-term investments. Under the Program, shares may be repurchased through open market and/or privately negotiated transactions at prices deemed appropriate by management. The timing and amount of repurchase transactions under the Program depend on market conditions as well as corporate and regulatory considerations. During the three months ended December 30, 2017, the Company repurchased a total of 0.1 million

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KULICKE AND SOFFA INDUSTRIES, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

Unaudited (continued)

shares of common stock at a cost of \$3.3 million under the Program. The stock repurchases were recorded in the periods they were delivered and accounted for as treasury stock in the Company's Consolidated Condensed Balance Sheet. The Company records treasury stock purchases under the cost method using the first-in, first-out (FIFO) method. Upon reissuance of treasury stock, amounts in excess of the acquisition cost are credited to additional paid-in capital. If the Company reissues treasury stock at an amount below its acquisition cost and additional paid-in capital associated with prior treasury stock transactions is insufficient to cover the difference between acquisition cost and the reissue price, this difference is recorded against retained earnings. As of December 30, 2017, our remaining stock repurchase authorization under the Program was approximately \$85.5 million.

## Accumulated Other Comprehensive Income

The following table reflects accumulated other comprehensive income reflected on the Consolidated Condensed Balance Sheets as of December 30, 2017 and September 30, 2017:

(in thousands)	As of	
	December 30, 2017	September 30, 2017
Gain from foreign currency translation adjustments	\$4,792	\$ 2,422
Unrecognized actuarial loss on pension plan, net of tax	(1,724 )	(1,736 )
Unrealized gain on hedging	796	1,353
Accumulated other comprehensive income	\$3,864	\$ 2,039

## Equity-Based Compensation

The Company has stockholder-approved equity-based employee compensation plans (the "Employee Plans") and director compensation plans (the "Director Plans") (collectively, the "Equity Plans"). As of December 30, 2017, 4.6 million shares of common stock are available for grant to its employees and directors under the 2017 Equity Plan, including previously registered shares that have been carried forward for issuance under the 2009 Equity Plan.

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

Relative TSR Performance Restricted Stock ("Relative TSR PSU") entitles the employee to receive common shares of the Company on the award vesting date, if market performance objectives that measure relative total shareholder return ("TSR") are attained. Relative TSR is calculated based upon the 90-calendar day average price of the Company's stock as compared to specific peer companies that comprise the GICS (45301020) Semiconductor Index. TSR is measured for the Company and each peer company over a performance period, which is generally three years. Vesting percentages range from 0% to 200% of awards granted. The provisions of the market-based performance restricted stock are reflected in the grant date fair value of the award; therefore, compensation expense is recognized regardless of whether the market condition is ultimately satisfied. Compensation expense is reversed if the award is forfeited prior to the vesting date.

Special/Growth Performance Restricted Stock ("Special/Growth PSU") entitles the employee to receive common shares of the Company on the three-year anniversary of the grant date (if employed by the Company) if revenue growth targets set by the Management Development and Compensation Committee ("MDCC") of the Board of Directors on the date of grant are met. If revenue growth targets are not met, performance-based restricted stock does not vest. Certain Special/Growth PSUs vest based on achievement of strategic goals over a certain time period or periods set by the MDCC. If the strategic goals are not achieved, the PSUs do not vest.

Equity-based compensation expense recognized in the Consolidated Condensed Statements of Operations for the three months ended December 30, 2017 and December 31, 2016 was based upon awards ultimately expected to vest.

Following the early adoption of ASU 2016-09, Compensation - Stock Compensation (Topic 718): Improvements to

Employee Share-Based Payment Accounting in this quarter, forfeitures have been accounted for when they occur.

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KULICKE AND SOFFA INDUSTRIES, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

Unaudited (continued)

The following table reflects restricted stock and common stock granted during the three months ended December 30, 2017 and December 31, 2016:

(shares in thousands)	Three months ended	
	December 30, 2017	December 31, 2016
Time-based restricted stock	430	696
Relative TSR PSU	153	373
Special/Growth PSU	59	—
Common stock	9	14
Equity-based compensation in shares	651	1,083

The following table reflects total equity-based compensation expense, which includes restricted stock, stock options and common stock, included in the Consolidated Condensed Statements of Operations during the three months ended December 30, 2017 and December 31, 2016:

(in thousands)	Three months ended	
	December 30, 2017	December 31, 2016
Cost of sales	\$132	\$ 141
Selling, general and administrative	2,323	2,734
Research and development	654	727
Total equity-based compensation expense	\$3,109	\$ 3,602

The following table reflects equity-based compensation expense, by type of award, for the three months ended December 30, 2017 and December 31, 2016:

(in thousands)	Three months ended	
	December 30, 2017	December 31, 2016
Time-based restricted stock	\$2,135	\$ 2,489
Relative TSR PSU	723	933
Special/Growth PSU	56	—
Common stock	195	180
Total equity-based compensation expense	\$3,109	\$ 3,602

**NOTE 12: EARNINGS PER SHARE**

Basic income per share is calculated using the weighted average number of shares of common stock outstanding during the period. Stock options and restricted stock are included in the calculation of diluted earnings per share, except when their effect would be anti-dilutive. For the three months ended December 30, 2017, 1.2 million shares of stock options and restricted stock were excluded due to the Company's net loss.

The following tables reflect a reconciliation of the shares used in the basic and diluted net income per share computation for the three months ended December 30, 2017 and December 31, 2016:



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NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

Unaudited (continued)

(in thousands, except per share data)	Three months ended			
	December 30, 2017		December 31, 2016	
	Basic	Diluted	Basic	Diluted
<b>NUMERATOR:</b>				
Net (loss)/income	\$(69,337)	\$(69,337)	\$15,583	\$15,583
<b>DENOMINATOR:</b>				
Weighted average shares outstanding - Basic	70,577	70,577	70,854	70,854
Stock options		—		25
Time-based restricted stock		—		317
Market-based restricted stock		—		567
Weighted average shares outstanding - Diluted		70,577		71,763
<b>EPS:</b>				
Net (loss)/income per share - Basic	\$(0.98 )	\$(0.98 )	\$0.22	\$0.22
Effect of dilutive shares		—		—
Net (loss)/income per share - Diluted		\$(0.98 )		\$0.22

**NOTE 13: INCOME TAXES**

The following table reflects the provision for income taxes and the effective tax rate for the three months ended December 30, 2017 and December 31, 2016:

(dollar amounts in thousands)	Three months ended	
	December 30, 2017	December 31, 2016
Income tax expense	\$109,633	\$ 2,608
Effective tax rate	272.1 %	14.3 %

For the three months ended December 30, 2017, the effective income tax rate differed from the federal statutory tax rate primarily due to tax expense related to the enactment of the Tax Cuts and Jobs Act (the "Act"), foreign withholding taxes, and tax liabilities from foreign operations, partially offset by tax benefits from profits generated in foreign operations subject to a lower statutory tax rate than the federal rate, tax benefits from domestic research expenditures, foreign tax credit, and the impact of tax holidays.

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

The increase in tax expense for the three months ended December 30, 2017 of \$109.6 million from the tax expense for the three months ended December 31, 2016 of \$2.6 million, of which \$105.0 million was due to the enactment of the Act and the remaining amount primarily due to higher worldwide profits in the quarter.

The Company's future effective tax rate would be affected by the enactment of the Act, by decrease in earnings in countries where it has lower statutory rates or increase in earnings in countries where it has higher statutory rates, by changes in the valuation of its deferred tax assets and liabilities, or by changes in tax laws, regulations, accounting principles, or interpretations thereof.

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

certain foreign jurisdictions.

In the first quarter of fiscal 2018, excess tax benefits from stock based compensation of \$5.4 million, previously offset against deferred tax assets, were reflected in the consolidated balance sheets as a component of retained earnings as a result of the adoption of ASU 2016-09. Please refer to Note 11 for more details regarding the adoption of ASU 2016-09.

2017 Tax Cuts and Jobs Act

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NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

Unaudited (continued)

On December 22, 2017, the Tax Cuts and Jobs Act (the “Act”) was signed into legislation. The Act, among other changes, reduces the U.S. federal corporate tax rate from 35% to 21%, implements a modified territorial tax system that includes a one-time transition tax on deemed repatriation of previously untaxed accumulated earnings and profits of certain foreign subsidiaries, and creates new taxes on certain foreign-sourced earnings.

At December 30, 2017, the Company has reflected the income tax effects of the Act for which the accounting under Accounting Standards Codification Topic 740, Income Taxes is complete. For those items for which the accounting is not yet complete, but for which a reasonable estimate could be made, we have recorded the provisional tax expense in the Statement of Operations. As described below, we have made a reasonable estimate of the effects on our existing deferred tax balances and the one-time transition tax. We recognized an aggregate net discrete tax provision of \$105.0 million, comprised primarily of approximately \$2.6 million from the re-measurement of U.S. deferred tax assets and liabilities using the relevant tax rate at which we expect them to reverse in the future and approximately \$102.5 million from the one-time transition tax on deemed repatriation of previously untaxed accumulated earnings and profits of certain foreign subsidiaries, net of deemed taxes paid.

The discrete tax provision incorporates assumptions made based upon our current interpretation of the Act and information available through January 19, 2018. The final impact of the Act may differ significantly from this estimates, due to, among other things, changes in interpretations and assumptions made by the Company as a result of additional information and additional guidance that may be issued by the U.S. Department of the Treasury or any other relevant governing body.

In addition, we will record the income tax effects of the global intangible low-taxed income (“GILTI”) as well as all other changes enacted by the Act as incurred for fiscal years beginning after 2018 (our fiscal 2019).

**Provisional Amounts**

**Deferred tax assets and liabilities:** We have re-measured our U.S. deferred tax assets and liabilities based on the relevant tax rates at which they are expected to reverse, which is estimated to be at either at the blended tax rate of 24.5% applicable for fiscal 2018 or applicable 21% for fiscal 2019 and later. Because we are still analyzing certain aspects of the Act and refining our calculations, which could potentially affect the measurement of these balances and change our estimated deferred tax amounts, we have recorded a provisional amount related to the re-measurement of our deferred tax balance of \$2.6 million.

**One-time transition tax:** The one-time transition tax has been estimated based on our accumulated post-1986 deferred foreign income that has not previously been subject to U.S. income tax. Because we have not yet completed our calculation of the one-time transition tax, we have recorded a provisional income tax expense of \$102.5 million related to the one-time transition tax of our foreign subsidiaries. No additional U.S. income taxes have been provided for any remaining undistributed foreign earnings not subject to the transition tax or any additional outside basis difference inherent in these entities as these amounts continue to be indefinitely reinvested in foreign operations.

**NOTE 14: SEGMENT INFORMATION**

Reportable segments are defined as components of an enterprise that engage in business activities for which discrete financial information is available and regularly reviewed by the chief operating decision maker in deciding how to allocate resources and to assess performance. The Company's Chief Executive Officer is the Company's chief operating decision maker. The chief operating decision-maker does not review discrete asset information.

In the fourth quarter of fiscal 2017, we reorganized our reporting structure into two reportable segments consisting of: (i) Capital Equipment; and (ii) APS. As a result of this re-alignment, the Company has aggregated twelve operating segments as of December 30, 2017, with six operating segments within the Capital Equipment reportable segment and six operating segments in the APS reportable segment. Subsequently, we have recasted financial results for the three months ended December 31, 2016 based on the revised segment structure. The change in the segments was a result of changes to our organizational structure initiated during the fourth quarter of fiscal 2017 to streamline business

operations to improve profitability and competitiveness and reflects a change in the manner in which our chief operating decision maker reviews information to assess our performance and make decisions about resource allocation. As part of these actions, we transitioned to a new internal management structure whereby the operating management responsible for tools used to assemble semiconductor devices, including integrated circuits (“ICs”), high and low powered discrete devices, light-emitting diodes (“LEDs”) and power modules, services, spares, maintenance, repair and upgrading operating segments was brought under common leadership in the APS segment. The restructuring actions were completed in fiscal year 2017. As a result of the reorganization, the Capital Equipment segment is comprised of the manufacturing and selling of ball bonders, wafer level bonders, wedge bonders, advanced packaging and electronic assembly solutions to semiconductor device manufacturers, IDMs, OSATs, other electronics manufacturers and automotive electronics suppliers.

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NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

Unaudited (continued)

The following table reflects operating information by segment for the three months ended December 30, 2017 and December 31, 2016:

(in thousands)	Three months ended	
	December 30, 2017	December 31, 2016
Net revenue:		
Capital Equipment	\$ 171,603	\$ 114,274
APS	42,088	35,365
Net revenue	213,691	149,639
Income from operations:		
Capital Equipment	29,393	10,368
APS	9,178	6,913
Income from operations	\$ 38,571	\$ 17,281

The following tables reflect capital expenditures, depreciation expense and amortization expense for the three months ended December 30, 2017 and December 31, 2016.

(in thousands)	Three months ended	
	December 30, 2017	December 31, 2016
Capital expenditures:		
Capital Equipment	\$ 1,835	\$ 1,126
APS	4,422	1,103
	\$ 6,257	\$ 2,229

(in thousands)	Three months ended	
	December 30, 2017	December 31, 2016
Depreciation expense:		
Capital Equipment	\$ 1,788	\$ 1,577
APS	737	844
	\$ 2,525	\$ 2,421

Amortization expense:		
Capital Equipment	\$ 1,043	\$ 594
APS	900	929
	\$ 1,943	\$ 1,523

## NOTE 15: COMMITMENTS, CONTINGENCIES AND CONCENTRATIONS

## Warranty Expense

The Company's equipment is generally shipped with a one-year warranty against manufacturing defects. The Company establishes reserves for estimated warranty expense when revenue for the related equipment is recognized. The reserve for estimated warranty expense is based upon historical experience and management's estimate of future warranty costs.

The following table reflects the reserve for warranty activity for the three months ended December 30, 2017 and December 31, 2016:



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NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

Unaudited (continued)

(in thousands)	Three months ended	
	December 30, 2017	December 31, 2016
Reserve for warranty, beginning of period	\$ 11,833	\$ 4,138
Provision for warranty	2,037	607
Warranty costs paid	(639 )	(643 )
Reserve for warranty, end of period	\$ 13,231	\$ 4,102

## Other Commitments and Contingencies

The following table reflects obligations not reflected on the Consolidated Condensed Balance Sheet as of December 30, 2017:

(in thousands)	Total	Payments due by fiscal year				
		2018	2019	2020	2021	thereafter
Inventory purchase obligation (1)	\$ 193,638	\$ 193,638	\$ —	\$ —	\$ —	\$ —
Operating lease obligations (2)	18,905	2,765	2,910	2,594	1,768	8,868
Total	\$ 212,543	\$ 196,403	\$ 2,910	\$ 2,594	\$ 1,768	\$ 8,868

(1) The Company orders inventory components in the normal course of its business. A portion of these orders are non-cancellable, however, some orders impose varying penalties and charges in the event of cancellation.

The Company has minimum rental commitments under various leases (excluding taxes, insurance, maintenance and repairs, which are also paid by the Company) primarily for various facility and equipment leases, which expire periodically through 2023 (not including lease extension options, if applicable).

Pursuant to ASC No. 840, Leases, for lessee's involvement in asset construction, the Company was considered the owner of the Building during the construction phase. The Building was completed on December 1, 2013 and Pte signed an agreement with the Landlord to lease from the Landlord approximately 198,000 square feet, representing approximately 70% of the Building. Following the completion of construction, we performed a sale-leaseback analysis pursuant to ASC 840-40 and determined that because of our continuing involvement, ASC 840-40 precluded us from derecognizing the asset and associated financing obligation. As such, we reclassified the asset from construction in progress to property, plant and equipment and began to depreciate the building over its estimated useful life of 25 years. We concluded that the term of the financing obligation is 10 years. This is equal to the non-cancellable term of our lease agreement with the Landlord. As of December 30, 2017, we recorded a financing obligation related to the Building of \$16.9 million (see Note 10 above). The financing obligation is not reflected in the table above.

## Concentrations

The following table reflects significant customer concentrations as a percentage of net revenue for the three months ended December 30, 2017 and December 31, 2016:

	Three months ended	
	December 30, 2017	December 31, 2016
Haoseng Industrial Company Limited <sup>(1)</sup>	10.9%	*
Tesla Motors	10.9%	*
Samsung	*	10.2 %

(1) Distributor of the Company's products.

\* Represented less than 10% of total net revenue





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NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

Unaudited (continued)

The following table reflects significant customer concentrations as a percentage of total accounts receivable as of December 30, 2017 and December 31, 2016:

	As of		
	December 30, 2017	December 31, 2016	
Haoseng Industrial Company Limited <sup>(1)</sup>	29.6%	13.3	%
Super Power International Ltd <sup>(1)</sup>	*	12.5	%
Xinye Electronics. Co. <sup>(1)</sup>	*	10.8	%

(1) Distributor of the Company's products.

\* Represented less than 10% of total accounts receivable

## NOTE 16: SUBSEQUENT EVENTS

On January 23, 2018, the Company entered into foreign exchange forward contracts with notional amount of \$21.5 million. The Company entered into these foreign exchange forward contracts to hedge a portion of our forecasted foreign currency-denominated expenses in the normal course of business and, accordingly, they are not speculative in nature. These foreign exchange forward contracts have maturities of up to twelve months.

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

Forward-Looking Statements

In addition to historical information, this filing contains statements relating to future events or our future results. These statements are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933, as amended (the "Securities Act") and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and are subject to the safe harbor provisions created by statute. Such forward-looking statements include, but are not limited to, our future revenue, sustained, increasing, continuing or strengthening, or decreasing or weakening, demand for our products, 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 tools, spare parts and services.

Generally, words such as "may," "will," "should," "could," "anticipate," "expect," "intend," "estimate," "plan," "continue," "g," "believe," or the negative of or other variations on these and other similar expressions identify forward-looking statements. These forward-looking statements are made only as of the date of this filing. We do not undertake to update or revise the forward-looking statements, whether as a result of new information, future events or otherwise. Forward-looking statements are based on current expectations and involve risks and uncertainties. Our future results could differ significantly from those expressed or implied by our forward-looking statements. These risks and uncertainties include, without limitation, those described below and under the heading "Risk Factors" in our Annual Report on Form 10-K for the fiscal year ended September 30, 2017 (the "Annual Report") and our other reports and registration statements filed from time to time with the Securities and Exchange Commission. This discussion should be read in conjunction with the Consolidated Condensed Financial Statements and Notes included in this report, as well as our audited financial statements included in the Annual Report.

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

OVERVIEW

Kulicke and Soffa Industries, Inc. ("We", the "Company" or "K&S") designs, manufactures and sells capital equipment and 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.

Our goal is to be the technology leader and the most competitive supplier in terms of cost and performance in each of our major product lines. Accordingly, we invest in research and engineering projects intended to enhance our position as a leader in the semiconductor assembly technology. We also remain focused on our cost structure through continuous improvement and optimization of operations. Cost reduction efforts are an important part of our normal ongoing operations and are intended to generate savings without compromising overall product quality and service levels.

In fiscal 2017, we reorganized our reporting structure into two reportable segments consisting of: (i) Capital Equipment; and (ii) Aftermarket Products and Services ("APS"). As a result of this re-alignment, the Company has

aggregated twelve operating segments as of December 30, 2017, with six operating segments within the Capital Equipment reportable segment and six operating segments in the APS reportable segment. Subsequently, we have recasted reportable segment information to reflect the current segment structure and confirm to the current period presentation. The change in the segments was a result of changes to our organizational structure initiated during fiscal 2017 to streamline business operations to improve profitability and competitiveness and reflects a change in the manner in which our chief operating decision maker reviews information to assess our performance and make decisions about resource allocation. As part of these actions, we transitioned to a new internal management structure whereby the operating management responsible for tools used to assemble semiconductor devices, including integrated circuits (“ICs”), high and low powered discrete devices, light-emitting diodes (“LEDs”) and power modules, services, spares, maintenance,

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repair and upgrading operating segments was brought under common leadership in the APS segment. The restructuring actions were completed in fiscal year 2017. As a result of the reorganization, the Capital Equipment segment is comprised of the manufacturing and selling of ball bonders, wafer level bonders, wedge bonders, advanced packaging and electronic assembly solutions to semiconductor device manufacturers, IDMs, OSATs, other electronics manufacturers and automotive electronics suppliers.

For further information on our operating segments and the reorganization actions, please refer to Note 14, "Segment Information," to our Consolidated Condensed Financial Statements included under Item 1. Our prior period reportable segment information has been recasted to reflect the current segment structure and conform to the current period presentation.

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

Our APS segment has historically been less volatile than our Capital Equipment segment. APS sales are more directly tied to semiconductor unit consumption rather than capacity requirements and production capability improvements. We continue to position our business to leverage our research and development leadership and innovation and to focus our efforts on mitigating volatility, improving profitability and ensuring longer-term growth. We remain focused on operational excellence, expanding our product offerings and managing our business efficiently throughout the business cycles. Our visibility into future demand is generally limited, forecasting is difficult, and we generally experience typical industry seasonality.

To limit potential adverse cyclical, seasonal and macroeconomic effects on our financial position, we have continued our efforts to maintain a strong balance sheet. As of December 30, 2017, our total cash, cash equivalents, restricted cash and short-term investments were \$650.2 million, a \$41.2 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.

### 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 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 typically 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

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LA and ELA option are now available on all of our Power Series ("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<sup>PS</sup> MEM PLUS) to address opportunities in memory assembly, in particular for NAND Flash storage.

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

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

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

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

We bring the same technology focus to our APS 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, spare parts and services is a core strength supporting our products' technological differentiation.

#### Products and Services

The following tables reflect net revenue by business segment for the three months ended December 30, 2017 and December 31, 2016:

	Three months ended			
	December 30, 2017		December 31, 2016	
(dollar amounts in thousands)	Net revenues	% of total net revenue	Net revenues	% of total net revenue
Capital Equipment	\$171,603	80.3 %	\$114,274	76.4 %
APS	42,088	19.7 %	35,365	23.6 %
	\$213,691	100.0 %	\$149,639	100.0 %

Capital Equipment Segment

In our Capital 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.

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Our principal Capital Equipment segment products include:

Business Line	Product Name (1)	Typical Served Market
Ball bonders	IConn <sup>PS</sup> PLUS series (2) (3) (4)	Advanced and ultra fine pitch applications
	IConn <sup>PS</sup> ProCu PLUS series (2) (3) (4)	High-end copper wire applications demanding advanced process capability and high productivity
	IConn <sup>PS</sup> MEM PLUS series (2) (3) (4)	Memory applications
	ConnX <sup>PS</sup> PLUS series (2) (3) (4)	Bonder for low-to-medium pin count applications
	ConnX <sup>PS</sup> LED PLUS	LED applications
Wedge bonders	3600PLUS	Power hybrid and automotive modules using either heavy aluminum wire or PowerRibbon®
	3700PLUS	Hybrid and automotive modules using thin aluminum wire
	PowerFusion <sup>PS</sup> TL	Power semiconductors using either aluminum wire or PowerRibbon®
	PowerFusion <sup>PS</sup> HL	Smaller power packages using either aluminum wire or PowerRibbon®
	Asterion <sup>TM</sup>	Power hybrid and automotive modules with extended area using heavy and thin aluminum
	Asterion <sup>TM</sup> EV	Extended area for battery bonding and dual lane hybrid module bonding
Advanced Packaging	AT Premier PLUS	Advanced wafer level bonding application
	APAMA C2S	Thermo-compression for chip-to-substrate, chip-to-chip and high accuracy flip chip ("HA FC") bonding applications
	APAMA C2W	Thermo-compression for chip-to-wafer, HA FC and high density fan-out wafer level packaging ("HD FOWL") bonding applications
	APAMA DA	High performance and productivity die attach bonder for single or stack die bonding
	LITEQ 500A	Lithographic stepper for the formation of redistribution layer ("RDL") in FOWL, fan-in wafer level packaging ("FIWLP") and flip chip ("FC")
	LITEQ 500B	Lithographic stepper for the formation of RDL in FOWL, FIWLP and FC with higher throughput



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

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

**Ball Bonders**

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

- The IConn<sup>PS</sup> PLUS series: high-performance ball bonders which can be configured for either gold or copper wire.
- The IConn<sup>PS</sup> ProCu PLUS series: high-performance copper wire ball bonders for advanced wafer nodes.
- The IConn<sup>PS</sup> MEM PLUS series: ball bonders designed for the assembly of stacked memory devices.
- The ConnX<sup>PS</sup> PLUS series: cost-performance ball bonders which can be configured for either gold or copper wire.
- The ConnX<sup>PS</sup> LED PLUS: ball bonders targeted specifically at the fast growing LED market.

Our ball bonders are capable of performing very fine pitch bonding, as well as creating the complex loop shapes needed in the assembly of advanced semiconductor packages and bonding on the latest silicon. 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 markets. Wedge bonders may use either aluminum wire or aluminum ribbon to connect semiconductor chips in power packages, power hybrids and automotive modules for products such as motor control modules or inverters for hybrid cars. In addition, our wedge bonder products can be used in the high reliability interconnections of rechargeable batteries in hybrid and electric automotive applications.

Our portfolio of wedge bonding products includes:

- The 3600PLUS: high speed, high accuracy wire bonders designed for power modules, automotive packages and other heavy wire multi-chip module applications.
- The 3700PLUS: wire bonders designed for hybrid and automotive modules using thin aluminum wire.
- The PowerFusion<sup>PS</sup> Semiconductor Wedge Bonders - Configurable in single, dual and multi-head configurations using aluminum wire and PowerRibbon<sup>TM</sup>:
- The PowerFusion<sup>PS</sup> TL: designed for single row leadframe and high volume power semiconductor applications.
- The PowerFusion<sup>PS</sup> HL and PowerFusion<sup>PS</sup> HLx: designed for advanced power semiconductor applications.
- The Asterion<sup>TM</sup> and Asterion<sup>TM</sup> EV: latest generation hybrid wedge bonder designed for larger area, higher speed and accuracy wedge bonders for power modules, automotive packages, battery applications and other aluminum wedge interconnect applications.

While wedge bonding traditionally utilizes aluminum wire, all of our wedge bonders may be modified to bond aluminum ribbon using our proprietary PowerRibbon<sup>®</sup> process. Aluminum ribbon offers device makers performance advantages over traditional round wire and is increasingly used for high current packages and automotive applications. Our PowerFusion<sup>PS</sup> series are driven by new powerful direct-drive motion systems and expanded pattern recognition capabilities. PowerFusion<sup>PS</sup> series improve the processing of high-density power packages, due to an expanded bondable area, wider leadframe capability, indexing accuracy and teach mode.

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### Advanced Packaging

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

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

Our APAMA Chip-to-Wafer ("C2W") bonder enables APAMA's high throughput architecture to be applied to 2.5D and 3D packages using silicon or glass interposers. The C2W dual head system also provides an adaptable manufacturing platform addressing applications 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.

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

Our APAMA DA provides high-accuracy and high-throughput die attach targeting advanced single and multi-die applications supporting the image sensor, memory as well as other advanced packaging markets.

With the acquisition of Liteq, we have broadened our product offering with Lithographic stepper typically used for the formation of RDL in FOWLP, FIWLP and FC.

### Electronic Assembly

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

### APS Segment

In our APS segment, we manufacture and sell a variety of tools for a broad range of semiconductor packaging applications. Our principal APS segment products include:

• **Capillaries:** expendable tools used in ball bonders. Made of ceramic and other elements, a capillary guides the wire during the ball bonding process. Its features help control the bonding process. We design and build capillaries suitable for a broad range of applications, including for use on our competitors' equipment. In addition to capillaries used for gold wire bonding, we have developed capillaries for use with copper wire to achieve optimal performance in copper wire bonding.

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

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

We also offer spare parts, equipment repair, maintenance and servicing, training services, and upgrades for our equipment.

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.

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## RESULTS OF OPERATIONS

The following tables reflect our income from operations for the three months ended December 30, 2017 and December 31, 2016:

(dollar amounts in thousands)	Three months ended			
	December 30, 2017	December 31, 2016	Change	% Change
Net revenue	\$213,691	\$ 149,639	\$64,052	42.8 %
Cost of sales	114,652	81,321	33,331	41.0 %
Gross profit	99,039	68,318	30,721	45.0 %
Selling, general and administrative	30,218	29,532	686	2.3 %
Research and development	30,250	21,505	8,745	40.7 %
Operating expenses	60,468	51,037	9,431	18.5 %
Income from operations	\$38,571	\$ 17,281	\$21,290	123.2 %

Our net revenues for the three months ended December 30, 2017 increased as compared to our net revenues for the three months ended December 31, 2016. The increase in net revenue was primarily due to higher volume as a result of higher demand from our customers, particularly in our Capital Equipment segment, due to growing market demand in consumer, enterprise, automotive and industrial applications.

The semiconductor industry is volatile and our operating results have fluctuated significantly in the past and are expected to continue to do so in the future.

## Net Revenue

Approximately 85.7% and 92.9% of our net revenue for the three months ended December 30, 2017 and December 31, 2016, respectively, was for shipments to customer locations outside of the U.S., primarily in the Asia/Pacific region. In the Asia/Pacific region, our customer base is also becoming more geographically concentrated as a result of economic and industry conditions. Approximately 40.3% and 41.4% of our net revenue for the three months ended December 30, 2017 and December 31, 2016 was for shipments to customers located in China. The following tables reflect net revenue by business segment for the three months ended December 30, 2017 and December 31, 2016:

(dollar amounts in thousands)	Three months ended			
	December 30, 2017	December 31, 2016	Change	% Change
Capital Equipment	\$171,603	\$ 114,274	\$57,329	50.2 %
APS	42,088	35,365	6,723	19.0 %
Total net revenue	\$213,691	\$ 149,639	\$64,052	42.8 %

The following table reflects the components of Capital Equipment net revenue change between the three months ended December 30, 2017 and December 31, 2016:

(in thousands)	December 30, 2017 vs. December 31, 2016		
	Price	Volume	\$ Change
Capital Equipment	\$(521)	\$57,850	\$57,329

For the three months ended December 30, 2017, the higher Capital Equipment net revenue as compared to the prior year period was primarily due to higher volume. The higher sales volume was primarily due to growing market demand in consumer, enterprise, automotive and industrial applications. The higher sales volume was partially offset by unfavorable price variance due to competition in the LED market.



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## APS

The following table reflects the components of APS net revenue change between the three months ended December 30, 2017 and December 31, 2016:

	December 30, 2017 vs. December 31, 2016 Three months ended		
(in thousands)	Price	Volume	\$ Change
APS	\$(83)	\$ 6,806	\$ 6,723

For the three months ended December 30, 2017, the higher APS net revenue as compared to prior year period was primarily due to higher contribution from EA/APMR ("Electronics Assembly/Hybrid") aftermarket services as well as higher volume from capillaries and Wedge Bonder consumables.

## Gross Profit

The following tables reflect gross profit by reportable segment for the three months ended December 30, 2017 and December 31, 2016:

(dollar amounts in thousands)	Three months ended			
	December 30, 2017	December 31, 2016	\$ Change	% Change
Capital Equipment	\$76,421	\$ 47,907	\$28,514	59.5 %
APS	22,618	20,411	2,207	10.8 %
Total gross profit	\$99,039	\$ 68,318	\$30,721	45.0 %

The following tables reflect gross profit as a percentage of net revenue by reportable segments for the three months ended December 30, 2017 and December 31, 2016:

	Three months ended			Basis Point Change
	December 30, 2017	December 31, 2016	%	
Capital Equipment	44.5%	41.9 %		260
APS	53.7%	57.7 %		(400 )
Total gross margin	46.3%	45.7 %		60

## Capital Equipment

The following table reflects the components of Capital Equipment gross profit change between the three months ended December 30, 2017 and December 31, 2016:

	December 30, 2017 vs. December 31, 2016 Three months ended			
(in thousands)	Price	Cost	Volume	\$ Change
Capital Equipment	\$(521)	\$ 1,030	\$28,005	\$28,514

For the three months ended December 30, 2017, the higher Capital Equipment gross profit as compared to the prior year period was primarily due to higher volume and lower cost. The higher sales volume was primarily due to growing market demand in consumer, enterprise, automotive and industrial applications. The lower cost was due to better absorption from higher manufacturing volume. The higher sales volume and lower cost were partially offset by unfavorable price variance due to competition in the LED market.



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## APS

The following table reflects the components of APS gross profit change between the three months ended December 30, 2017 and December 31, 2016:

December 30, 2017 vs.  
December 31, 2016  
Three months ended

(in thousands)	Price	Cost	Volume	\$ Change
APS	\$(83)	\$406	\$1,884	\$2,207

For the three months ended December 30, 2017, the higher Aftermarket Product and Services Gross Profit as compared to prior year period was primarily due to higher contribution from sales of EA/APMR aftermarket services, higher volume from capillaries and Wedge Bonder consumables and lower manufacturing cost.

## Operating Expenses

The following tables reflect operating expenses as a percentage of net revenue for the three months ended December 30, 2017 and December 31, 2016:

	Three months ended			Basis
	December 30,	December 31,		point
	2017	2016		change
Selling, general & administrative	14.1%	19.7%	%	(560 )
Research & development	14.2%	14.4%	%	(20 )
Total	28.3%	34.1%	%	(580 )

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

For the three months ended December 30, 2017, higher SG&A expenses as compared to prior year period was primarily due to \$1.3 million severance payments, \$1.0 million net unfavorable variance in foreign exchange, inclusion of SG&A expenses of \$0.9 million from the recently acquired Lithography business, \$0.8 million insurance claims in first quarter of fiscal 2017, and provision for doubtful accounts of \$0.3 million. These were partially offset by lower staff costs of \$3.8 million.

## Research and Development ("R&amp;D")

For the three months ended December 30, 2017, higher R&D expenses as compared to prior year period was primarily due to higher staff costs, higher investment in the development of Advanced Packaging products and inclusion of R&D expenses from the recently acquired Lithography business.

## Interest Income and Expense

The following tables reflect interest income and interest expense for the three months ended December 30, 2017 and December 31, 2016:

(dollar amounts in thousands)	Three months ended		\$ Change	% Change
	December 30, 2017	December 31, 2016		
Interest income	\$1,975	\$ 1,172	\$ 803	68.5 %
Interest expense	\$(266 )	\$(262 )	\$( 4 )	1.5 %

For the three months ended December 30, 2017, interest income was higher as compared to prior year period. This was primarily due to higher interest rates and a larger average cash, cash equivalents and short-term investments balance.

Interest expense for the three months ended December 30, 2017 and December 31, 2016 was attributable to the interest on financing obligation relating to our corporate headquarters, which was incurred subsequent to the completion of the building in December 2013 (Refer to Note 10 of Item 1).





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## Provision for Income Taxes

The following table reflects the provision for income taxes and the effective tax rate for the three months ended December 30, 2017 and December 31, 2016:

(dollar amounts in thousands)	Three months ended	
	December 30, 2017	December 31, 2016
Income tax expense	\$109,633	\$2,608
Effective tax rate	272.1 %	14.3 %

Please refer to Note 13 of Item 1 for discussion on the provision for income taxes and the effective tax rate for the three months ended December 30, 2017 and December 31, 2016.

## LIQUIDITY AND CAPITAL RESOURCES

The following table reflects total cash, cash equivalents, restricted cash and short-term investments as of December 30, 2017 and September 30, 2017:

(dollar amounts in thousands)	As of		Change
	December 30, 2017	September 30, 2017	
Cash and cash equivalents	\$390,661	\$392,410	\$(1,749)
Restricted cash	528	530	(2)
Short-term investments	259,000	216,000	43,000
Total cash, cash equivalents, restricted cash and short-term investments	\$650,189	\$608,940	\$41,249
Percentage of total assets	56.1 %	52.0 %	

The following table reflects a summary of the Consolidated Condensed Statement of Cash Flow information for the three months ended December 30, 2017 and December 31, 2016:

(in thousands)	Three months ended	
	December 30, 2017	December 31, 2016
Net cash provided by operating activities	\$ 50,333	\$ 30,049
Net cash used in investing activities	(48,183)	(2,659)
Net cash (used in)/provided by financing activities	(3,391)	142
Effect of exchange rate changes on cash, cash equivalents and restricted cash	(510)	1,987
Changes in cash, cash equivalents and restricted cash	\$ (1,751)	\$ 29,519
Cash, cash equivalents and restricted cash, beginning of period	392,940	423,907
Cash, cash equivalents and restricted cash, end of period	\$ 391,189	\$ 453,426

Three months ended December 30, 2017

Net cash provided by operating activities was primarily due to the combination of net loss of \$69.3 million, non-cash adjustments of \$32.1 million and an increase in net change in operating assets and liabilities of \$87.6 million. The increase in net change in operating assets and liabilities was primarily driven by an increase in income tax payable of \$84.6 million, a decrease in accounts and notes receivable of \$24.4 million, and a decrease in inventories of \$13.9 million. This was partially offset by a decrease in accounts payable, accrued expenses and other current liabilities of \$36.6 million.

The increase in income tax payable was mainly due to additional tax payable subsequent to the enactment of the Tax Cuts and Jobs Act. The decrease in accounts receivables and notes receivables and inventories was mainly due to improved working capital management where days sales outstanding and days inventory outstanding in the first quarter of fiscal 2018 were lower as compared to the fourth quarter of fiscal 2017 due to higher collection and lower inventory on hand in current quarter respectively. The lower

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accounts payable, accrued expenses and other current liabilities was primarily due to lower accruals on incentive compensation and other bonuses.

Net cash used in investing activities was due to purchases of short-term investments of \$133.0 million, capital expenditures of \$5.2 million. This was offset by the proceeds from the maturity of short-term investments of \$90.0 million.

Net cash used in financing activities was primarily due to repurchase of common stock of \$3.3 million.

Three months ended December 31, 2016

Net cash provided by operating activities was primarily due to net income of \$15.6 million and non-cash adjustments of \$2.4 million and an increase in net change in operating assets and liabilities of \$12.1 million. The increase in net change in operating assets and liabilities was primarily driven by a decrease in accounts and notes receivable of \$12.5 million, a decrease in inventories of \$2.3 million, a decrease in prepaid expenses and other current assets of \$1.1 million. This was partially offset by corresponding decrease in accounts payable, accrued expenses and other current liabilities of \$3.2 million and net other liabilities of \$0.8 million.

The decrease in accounts receivables and inventories was mainly due to improved working capital management where days sales outstanding and days inventory outstanding in the first quarter of fiscal 2017 were lower as compared to the fourth quarter of fiscal 2016 due to higher collection and lower inventory on hand in current quarter respectively. The lower accounts payable, accrued expenses and other current liabilities was due to lower accruals and partially offset by higher days payable outstanding.

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

Fiscal 2018 Liquidity and Capital Resource Outlook

We expect our aggregate fiscal 2018 capital expenditures to be between \$26.0 million and \$28.0 million, of which approximately \$5.2 million has been incurred through the first quarter. Expenditures are anticipated to be primarily used for R&D projects, enhancements to our manufacturing operations in Asia, improvements to our information technology infrastructure and leasehold improvements for our facilities.

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

We may seek, as we believe appropriate, additional debt or equity financing that would provide capital for corporate purposes, working capital funding, additional liquidity needs or to fund future growth opportunities, including possible acquisitions. The timing and amount of potential capital requirements cannot be determined at this time and will depend on a number of factors, including our actual and projected demand for our products, semiconductor and semiconductor capital equipment industry conditions, competitive factors, and the condition of financial markets. As of December 30, 2017 and September 30, 2017, approximately \$514.0 million and \$565.0 million of cash, cash equivalents, and short-term investments were held by the Company's foreign subsidiaries, respectively. As a result of the Tax Cuts and Jobs Act of 2017, signed into law on December 22, 2017, the cash amounts as of December 30, 2017 are expected to be available for use in the U.S. without incurring additional U.S. income tax. Please refer to Note 13 of Item 1 for more details regarding the impact of the Act on our income taxes.

On August 15, 2017, 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 1, 2020. 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, cash equivalents and short-term investments. Under the Program, shares may be repurchased through open market and/or privately negotiated transactions at prices deemed appropriate by management. The timing and amount of repurchase transactions under the Program depend on market conditions as well as corporate and regulatory considerations. During the three months ended December 30, 2017, the Company repurchased a total of 0.1 million shares of common stock at a cost of \$3.3 million under the Program. As of December 30, 2017, our remaining stock repurchase

authorization under the Program was approximately \$85.5 million.

**Other Obligations and Contingent Payments**

In accordance with U.S. generally accepted accounting principles, certain obligations and commitments are not required to be included in the Consolidated Condensed Balance Sheets and Statements of Operations. These obligations and commitments, while entered into in the normal course of business, may have a material impact on our liquidity. Certain of the following commitments

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as of December 30, 2017 are appropriately not included in the Consolidated Condensed Balance Sheets and Statements of Operations included in this Form 10-Q; however, they have been disclosed in the table below for additional information.

The Company's other non-current liabilities in the Consolidated Condensed Balance Sheets consist primarily of deferred tax liabilities, gross long-term tax payable and retirement obligations. As of December 30, 2017, the Company had deferred tax liabilities of \$26.9 million and long-term tax payable of \$12.1 million of which the Company is unable to make a reasonably reliable estimate of the timing of payments due to uncertainties in the timing of tax audit outcomes; therefore, such amounts are not included in the below contractual obligation table. In addition, the Company has retirement obligations and other severances of \$7.4 million which are payable on employee departures.

The following table presents certain payments due by the Company under contractual obligations with minimum firm commitments as of December 30, 2017:

(in thousands)	Total	Payments due in			
		Less than 1 year	1 - 3 years	3 - 5 years	More than 5 years
Inventory purchase obligations <sup>(1)</sup>	\$ 193,638	\$ 193,638	\$ —	\$ —	\$ —
Operating lease obligations <sup>(2)</sup>	18,905	3,549	5,180	3,447	6,729
Long-term tax payable <sup>(3)</sup> (reflected on our Balance Sheets)	77,425	—	12,472	12,372	52,581
Asset retirement obligations <sup>(4)</sup> (reflected on our Balance Sheets)	1,449	443	40	—	966
Total	\$ 291,417	\$ 197,630	\$ 17,692	\$ 15,819	\$ 60,276

(1) 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.

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

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

In accordance with ASC No. 840, Leases ("ASC 840"), the Company was considered to be the owner of its headquarters during the construction phase due to its involvement in the asset construction. As a result of the Company's continued involvement during the lease term, the Company did not fulfill the criteria to apply sale-leaseback accounting under ASC 840. Therefore, at completion, the building remained on the Consolidated Condensed Balance Sheet, and the corresponding financing obligation was reclassified to long-term liability. As of December 30, 2017, we recorded a financing obligation of \$16.9 million. The financing obligation is not reflected in the table above.

(3) Associated with the one-time transition tax of our foreign subsidiaries in relation to the 2017 Tax Cuts and Jobs Act. (Refer to Note 13 of Item 1).

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

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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 bank guarantees for operational purposes. As of December 30, 2017, the outstanding amount is \$3.5 million. In addition, the Company has other bank guarantees for operational purposes which are secured with corresponding deposits placed with the issuer banks. These amounts are shown as restricted cash in the Consolidated Condensed Balance Sheets.

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 an initial term of one year, and has been extended by another year until March 20, 2018. All other material terms and conditions of the 2016 Credit Facility remain in force and effect. The proceeds of the 2016 Credit Facility may be used for the Company's general corporate purposes. As of December 30, 2017, there was no outstanding amount under the 2016 Credit Facility and we were in compliance with the covenants described in the 2016 Credit Facility.

As of December 30, 2017, we did not have any other off-balance sheet arrangements, such as contingent interests or obligations associated with variable interest entities.

Item 3. - QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Risk

Our available-for-sale securities, if applicable, may consist of short-term investments in highly rated debt instruments of the U.S. Government and its agencies, financial institutions, and corporations. We continually monitor our exposure to changes in interest rates and credit ratings of issuers with respect to any available-for-sale securities and target an average life to maturity of less than 18 months. Accordingly, we believe that the effects on us of changes in interest rates and credit ratings of issuers are limited and would not have a material impact on our financial condition or results of operations.

Foreign Currency Risk

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

Based on our foreign currency exposure as of December 30, 2017, a 10.0% fluctuation could impact our financial position, results of operations or cash flows by \$2.0 to \$3.0 million. Our attempts to hedge against these risks may not be successful and may result in a material adverse impact on our financial results and cash flow.

We enter into foreign exchange forward contracts to hedge a portion of our forecasted foreign currency-denominated expenses in the normal course of business and, accordingly, they are not speculative in nature. These foreign exchange forward contracts have maturities of up to twelve months. We have foreign exchange forward contracts with a notional amount of \$28.5 million outstanding as of December 30, 2017. On January 23, 2018, the Company entered into foreign exchange forward contracts with notional amount of \$21.5 million.

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Item 4. - CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Interim Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of December 30, 2017. Based on that evaluation, the Chief Executive Officer and Interim Chief Financial Officer concluded that, as of December 30, 2017 our disclosure controls and procedures were effective in providing reasonable assurance that the information required to be disclosed by us in reports filed under the Securities Exchange Act of 1934, as amended, is (i) recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms and (ii) accumulated and communicated to our management, including the Chief Executive Officer and Interim Chief Financial Officer, as appropriate, to allow timely decisions regarding disclosure.

Changes in Internal Control Over Financial Reporting

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

In connection with the evaluation by our management, including with the participation of our Chief Executive Officer and Interim Chief Financial Officer, of our internal control over financial reporting, no changes during the three months ended December 30, 2017 were identified to have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.



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## PART II. - OTHER INFORMATION

## Item 1A. - RISK FACTORS

## Certain Risks Related to Our Business

There have been no material changes from the risk factors discussed in Part I, Item 1A, "Risk Factors", of our 2017 Annual Report on Form 10-K, except as follows:

U.S. federal income tax reform could adversely affect us.

On December 22, 2017, the Tax Cuts and Jobs Act was signed into legislation. The Act, among other changes, reduces the U.S. federal corporate tax rate from 35% to 21%, implements a modified territorial tax system that includes a one-time transition tax on deemed repatriation of previously untaxed accumulated earnings and profits of certain foreign subsidiaries, and creates new taxes on certain foreign-sourced earnings.

At December 30, 2017, the Company has reflected the income tax effects of the Tax Cuts and Jobs Act (the "Act") for which the accounting under Accounting Standards Codification Topic 740, Income Taxes is complete. For those items for which the accounting is not yet complete, but for which a reasonable estimate could be made, we have recorded the provisional tax expense in the Statement of Operations. As described below, we have made a reasonable estimate of the effects of the Act on our existing deferred tax balances and the impact of the one-time transition tax. We recognized an aggregate net discrete tax provision of \$105.0 million, comprised primarily of approximately \$2.6 million from the re-measurement of U.S. deferred tax assets and liabilities using the relevant tax rate at which we expect them to reverse in the future and approximately \$102.5 million from the one-time transition tax on deemed repatriation of previously untaxed accumulated earnings and profits of certain foreign subsidiaries. We continue to examine the impact of certain provisions of the Act that will become applicable in fiscal year 2019 related to base erosion anti-abuse tax ("BEAT"), global intangible low-taxed income ("GILTI"), and other provisions that could adversely affect our effective tax rate in the future. Also, because there may be additional state income tax implications, the Company will continue to monitor changes in state and local tax laws to determine if state and local taxing authorities intend to conform or deviate from changes to U.S. federal tax legislation as a result of the Act.

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

The following table summarizes the repurchases of common stock during the three months ended December 30, 2017 (in millions, except number of shares, which are reflected in thousands, and per share amounts):

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares That May Yet Be Purchased Under the Plans or Programs <sup>(1)</sup>
October 1, 2017 to October 28, 2017	119	\$ 22.03	119	\$ 86.1
October 29, 2017 to December 2, 2017	30	\$ 22.49	30	\$ 85.5
December 3, 2017 to December 30, 2017	—	—	—	\$ 85.5
For the three months ended December 30, 2017	149		149	

(1) On August 15, 2017, the Company announced that its Board of Directors approved a share repurchase program (the "Program") that authorizes the repurchase of up to \$100 million of the Company's common shares, from time to time over the three year period ending August 1, 2020. The Company may purchase shares of its common stock through open market and privately negotiated transactions at prices deemed appropriate by management. 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 will be funded using the

Company's available cash, cash equivalents and short-term investments. The timing and amount of repurchase transactions under the Program depend on market conditions as well as corporate and regulatory considerations.

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Item 6. - EXHIBITS

Exhibit No. Description

31.1	Certification of Fusen Chen, Chief Executive Officer of Kulicke and Soffa Industries, Inc., pursuant to Rule 13a-14(a) or Rule 15d-14(a).
31.2	Certification of Lester Wong, Interim Chief Financial Officer of Kulicke and Soffa Industries, Inc., pursuant to Rule 13a-14(a) or Rule 15d-14(a).
32.1	Certification of Fusen Chen, Chief Executive Officer of Kulicke and Soffa Industries, Inc., pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Lester Wong, Interim Chief Financial Officer of Kulicke and Soffa Industries, Inc., pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document.
101.SCH	XBRL Taxonomy Extension Schema Document.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

KULICKE AND SOFFA INDUSTRIES, INC.

Date: February 1, 2018 By: /s/ LESTER WONG

Lester Wong

Senior Vice President, Interim Chief Financial Officer and General Counsel

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