KULICKE & SOFFA INDUSTRIES INC
Form 10-Q
July 30, 2014

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

FORM 10-Q

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

For the quarterly period ended June 28, 2014

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) 784-7518
(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 ý No ¨

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a smaller reporting company. See definition of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):
Large accelerated filer ý Accelerated filer [ ] Non-accelerated filer [ ] Smaller reporting company [ ]

(Do not check if a smaller reporting company)

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

As of July 25, 2014, there were 76,663,182 shares of the Registrant's Common Stock, no par value, outstanding.

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FORM 10 – Q

June 28, 2014
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Item 1. – FINANCIAL STATEMENTS
KULICKE AND SOFFA INDUSTRIES, INC.
CONSOLIDATED BALANCE SHEETS
(in thousands)
Unaudited

	As of June 28, 2014	September 28, 2013
ASSETS		
Current assets:		
Cash and cash equivalents	$597,457	$521,788
Short-term investments	2,600	3,252
Accounts and notes receivable, net of allowance for doubtful accounts of $239 and $504 respectively	154,410	162,714
Inventories, net	53,922	38,135
Prepaid expenses and other current assets	19,153	24,012
Deferred income taxes	4,063	4,487
Total current assets	831,605	754,388
Property, plant and equipment, net	52,231	47,541
Goodwill	41,546	41,546
Intangible assets	7,221	11,209
Other assets	7,260	8,310
TOTAL ASSETS	$939,863	$862,994
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$66,222	$37,030
Accrued expenses and other current liabilities	41,406	38,868
Income taxes payable	4,076	1,504
Total current liabilities	111,704	77,402
Financing obligation	19,618	19,396
Deferred income taxes	40,115	40,709
Other liabilities	8,957	8,822
TOTAL LIABILITIES	$180,394	$146,329
Commitments and contingent liabilities (Note 12)		
SHAREHOLDERS' EQUITY:		
Preferred stock, without par value:		
Authorized 5,000 shares; issued - none	$—	$—
Common stock, no par value:		
Authorized 200,000 shares; issued 81,590 and 80,237 respectively; outstanding 76,636 and 75,283 shares, respectively	476,547	467,525
Treasury stock, at cost, 4,954 shares	(46,356)	(46,356)
Accumulated income	325,607	291,878
Accumulated other comprehensive income	3,671	3,618
TOTAL SHAREHOLDERS' EQUITY	$759,469	$716,665

TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$939,863	$862,994

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

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

	Three months ended		Nine months ended	
	June 28, 2014	June 29, 2013	June 28, 2014	June 29, 2013
Net revenue	$180,517	$141,181	$373,836	$361,330
Cost of sales	95,360	75,267	192,642	195,071
Gross profit	85,157	65,914	181,194	166,259
Selling, general and administrative	30,093	31,264	81,430	88,754
Research and development	23,480	15,783	60,277	46,243
Operating expenses	53,573	47,047	141,707	134,997
Income from operations	31,584	18,867	39,487	31,262
Interest income	256	267	878	629
Interest expense	(316)	—	(732)	(1)
Income from operations before income taxes	31,524	19,134	39,633	31,890
Provision for income taxes	4,908	247	5,904	2,063
Net income	$26,616	$18,887	$33,729	$29,827
Net income per share:				
Basic	$0.35	$0.25	$0.44	$0.40
Diluted	$0.34	$0.25	$0.44	$0.39
Weighted average shares outstanding:				
Basic	76,596	75,231	76,308	75,083
Diluted	77,605	76,473	77,086	76,204

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

KULICKE AND SOFFA INDUSTRIES, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(in thousands)
Unaudited

	Three months ended		Nine months ended	
	June 28, 2014	June 29, 2013	June 28, 2014	June 29, 2013
Net income	$26,616	$18,887	$33,729	$29,827
Other comprehensive income / (loss):				
Foreign currency translation adjustment	304	186	(10)	784
Unrecognized actuarial gain / (loss), Switzerland pension plan, net of tax	3	41	(9)	4
	307	227	(19)	788
Derivatives designated as hedging instruments:				
Unrealized gain on derivative instruments, net of tax	95	—	95	—
Reclassification adjustment for gain on derivative instruments recognized, net of tax	(23)	—	(23)	—
Net increase from derivatives designated as hedging instruments, net of tax	72	—	72	—
Total other comprehensive income	379	227	53	788
Comprehensive income	$26,995	$19,114	$33,782	$30,615

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

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

	Nine months ended	
	June 28, 2014	June 29, 2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$33,729	$29,827
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	9,995	14,302
Equity-based compensation and employee benefits	8,817	8,088
Reversal of excess tax benefits from stock-based compensation arrangements	825	—
Adjustment for doubtful accounts	(265)	(111)
Adjustment for inventory valuation	2,109	(205)
Deferred taxes	(552)	190
Loss (Gain) on disposal of property, plant and equipment	46	(147)
Changes in operating assets and liabilities:		
Accounts and notes receivable	8,599	42,728
Inventory	(17,893)	10,869
Prepaid expenses and other current assets	4,115	40
Accounts payable, accrued expenses and other current liabilities	30,293	(31,296)
Income taxes payable	2,566	(5,454)
Other, net	1,805	(651)
Net cash provided by operating activities	84,189	68,180
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property, plant and equipment	(9,294)	(5,957)
Proceeds from sales of property, plant and equipment	—	5,310
Purchase of short-term investments	(9,173)	—
Maturity of short-term investments	9,795	—
Net cash used in investing activities	(8,672)	(647)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from exercise of common stock options	1,030	868
Reversal of excess tax benefits from stock-based compensation arrangements	(825)	—
Net cash provided by financing activities	205	868
Effect of exchange rate changes on cash and cash equivalents	(53)	(152)
Changes in cash and cash equivalents	75,669	68,249
Cash and cash equivalents at beginning of period	521,788	440,244
Cash and cash equivalents at end of period	$597,457	$508,493
CASH PAID FOR:		
Interest	$580	$—
Income taxes	$4,270	$8,060

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

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

NOTE 1: BASIS OF PRESENTATION

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

The interim consolidated financial statements are unaudited and, in management's opinion, include all adjustments (consisting only of normal and recurring adjustments) necessary for a fair presentation of results for these interim periods. The interim consolidated financial statements do not include all of the information and footnote disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) and should be read in conjunction with the consolidated financial statements and notes thereto included in the Annual Report on Form 10-K for the fiscal year ended September 28, 2013, filed with the Securities and Exchange Commission, which includes Consolidated Balance Sheets as of September 28, 2013 and September 29, 2012, 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 28, 2013. 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 30th. Fiscal 2014 quarters end on December 28, 2013, March 29, 2014, June 28, 2014 and September 27, 2014. Fiscal 2013 quarters ended on December 29, 2012, March 30, 2013, June 29, 2013 and September 28, 2013. In fiscal years consisting of 53 weeks, the fourth quarter will consist of 14 weeks.

Nature of Business

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

Use of Estimates

The preparation of consolidated 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 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, restructuring, and warranties. Management bases its estimates on historical experience and on various other assumptions believed to be reasonable. As a result, management makes judgments regarding the carrying values of its assets and liabilities that 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 under different assumptions or conditions.

Vulnerability to Certain Concentrations

Financial instruments which may subject the Company to concentrations of credit risk as of June 28, 2014 and September 28, 2013 consisted primarily of short-term investments and trade receivables. The Company manages credit risk associated with investments by investing its excess cash in highly rated debt instruments of the U.S. Government and its agencies, financial institutions, and corporations. The Company has established investment guidelines relative to diversification and maturities designed to maintain safety and liquidity. These guidelines are periodically reviewed and modified as appropriate. The Company does not have any exposure to sub-prime financial instruments or auction rate securities.

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KULICKE AND SOFFA INDUSTRIES, INC.
NOTES TO CONSOLIDATED 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; however, the Company closely monitors its customers' financial strength to reduce the risk of loss.

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

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

Foreign Currency Translation

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

Derivative Financial Instruments

The Company’s primary objective for holding derivative financial instruments is to manage the fluctuation in foreign exchange rates. 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 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. The derivative financial instruments, which have maturities of up to six months, are recorded at fair value and are included in prepaid expenses and other current assets, or other accrued expenses and other current liabilities. We enter into these foreign exchange contracts to hedge a portion of our forecasted foreign currency denominated operating expenses in the normal course of business and accordingly, they are not speculative in nature.

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 statements of income as the impact of the hedged transaction. Derivatives that we designate as cash flow hedges are classified in the consolidated statements 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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NOTES TO CONSOLIDATED 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 June 28, 2014 and September 28, 2013, fair value approximated the cost basis for cash equivalents.

Investments

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

Allowance for Doubtful Accounts

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

Inventories

Inventories are stated at the lower of cost (on a first-in first-out basis) or market value. The Company generally provides reserves for obsolete inventory and for inventory considered to be in excess of demand. Demand is generally defined as 18 months forecasted future consumption for equipment, 24 months consumption for all 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 market value, based upon assumptions about future consumption, and market conditions. If actual market conditions are less favorable than projections, additional inventory reserves may be required.

Property, Plant and Equipment

Property, plant and equipment are carried at cost. The cost of additions and those improvements which increase the capacity or lengthen the useful lives of assets are capitalized, while repair and maintenance costs are expensed as incurred. Depreciation and amortization are provided on a straight-line basis over the estimated useful lives as follows: buildings 25 years; machinery and equipment 3 to 10 years; and leasehold improvements are based on the shorter of the life of lease or life of asset. Purchased computer software costs related to business and financial systems are amortized over a five-year period on a straight-line basis.

Valuation of Long-Lived Assets

In accordance with ASC No. 360, Property, Plant & Equipment ("ASC 360"), the Company's property, plant and equipment is tested for impairment based on undiscounted cash flows when triggering events occur, and if impaired, written-down to fair value based on either discounted cash flows or appraised values. ASC 360 also provides a single accounting model for long-lived assets to be disposed of by sale and establishes additional criteria that would have to be met to classify an asset as held for sale. The carrying amount of an asset or asset group is not recoverable to the extent it exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset or asset group. Estimates of future cash flows used to test the recoverability of a long-lived asset or asset group must incorporate the entity's own assumptions about its use of the asset or asset group and must factor in all available evidence.

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 the expected historical or projected future operating results, significant changes in the manner of use of the assets, significant negative industry or economic trends and significant changes in market capitalization. During the three and nine months ended June 28, 2014, no triggering events occurred.

Accounting for Impairment of Goodwill

The Company operates two reportable segments: Equipment and Expendable Tools. Goodwill was recorded in 2009 for the acquisition of Orthodyne Electronics Corporation ("Orthodyne"), which added wedge bonder products (also known as "reporting unit") to the Equipment business.

Accounting Standard Update 2011-08, Testing Goodwill for Impairment (“ASU 2011-08”), provides companies with the option to 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, then a company is required to perform the second step of the two-step 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 process. On an ongoing basis, the Company monitors if a “triggering” event has occurred that may have the effect of reducing the fair value of a reporting unit below its respective carrying value. Adverse changes in expected operating results and/or unfavorable changes in other economic factors used to estimate fair values could result in a non-cash impairment charge in the future. During the three and nine months ended June 28, 2014, no triggering events occurred.

Impairment assessments inherently involve judgment as to assumptions about 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 3 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 equipment installation obligations have been completed and customer acceptance, when applicable, has been received or otherwise released from installation or customer acceptance obligations. If terms of the sale provide for a customer acceptance period, revenue is recognized upon the expiration of the acceptance period or customer acceptance, whichever occurs first. The Company’s standard terms are ex works (the Company’s factory), with title transferring to its customer at the Company’s loading dock or upon embarkation. The Company has a small percentage of sales with other terms, and revenue is recognized in accordance with the terms of the related customer purchase order. Revenue related to services is recognized upon performance of the services requested by a customer order. Revenue for extended maintenance service contracts with a term more than one month is recognized on a prorated straight-line basis over the term of the contract.

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

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 which the Company intends to sell are carried as inventory until sold.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Unaudited (continued)

Income Taxes
In accordance with ASC No. 740, Income Taxes, deferred income taxes are determined using the liability method. The Company records a valuation allowance to reduce its deferred tax assets to the amount it expects is more likely than not to be realized. While the Company has considered future taxable income and its ongoing tax planning strategies in assessing the need for the valuation allowance, if it were to determine that it would be able to realize its deferred tax assets in the future in excess of its net recorded amount, an adjustment to the deferred tax asset would increase income in the period such determination was made. Likewise, should the Company determine it would not be able to realize all or part of its net deferred tax assets in the future, an adjustment to the deferred tax asset would decrease income in the period such determination was made.
In accordance with ASC No. 740 Topic 10, Income Taxes, General (“ASC 740.10”), the Company accounts for uncertain tax positions taken or expected to be taken in its income tax return. Under ASC 740.10, the Company utilizes a two-step approach for evaluating uncertain tax positions. Step one, or recognition, requires a company to determine if the weight of available evidence indicates a tax position is more likely than not to be sustained upon audit, including resolution of related appeals or litigation processes, if any. Step two, or measurement, is based on the largest amount of benefit, which is more likely than not to be realized on settlement with the taxing authority.
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.
Prior Period Adjustments
During the three months ended December 28, 2013, the Company identified a prior period adjustment of $0.8 million relating to the provision of input tax receivables that resulted in increased selling, general and administrative expense and a reduction of input tax receivable that should have been recorded during the three months ended September 28, 2013. This error was corrected during the quarter ended December 28, 2013 and management has deemed that the adjustment was not material to the quarter ended September 28, 2013, the fiscal year ended September 28, 2013, or to the expected full year results of the current year ending September 27, 2014.
During the three months ended June 28, 2014, the Company identified a prior period adjustment of $1.6 million relating to the pricing discounts given to certain distributors that resulted in the decrease of the selling, general and administrative expense and the revenue that should have been recorded during the six months ended March 29, 2014. This error was corrected during the quarter ended June 28, 2014 and management has assessed that the adjustment

was not material to the six months ended March 29, 2014, or to the expected full year results of the current year ending September 27, 2014.

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

Recent Accounting Pronouncements

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606), which supersedes the revenue recognition requirements in Accounting Standards Codification ("ASC") 605, Revenue Recognition. The new revenue recognition standard requires entities to recognize revenue in a way that depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services. ASU 2014-09 is effective for interim and annual reporting periods beginning after December 15, 2016 and early adoption is not permitted. The Company is currently assessing the impact of this new guidance.

NOTE 2: BALANCE SHEET COMPONENTS

The following tables reflect the components of significant balance sheet accounts as of June 28, 2014 and September 28, 2013:

	As of	
(in thousands)	June 28, 2014	September 28, 2013
Short term investments, available-for-sale:		
Deposits maturing within one year (1)	$2,600	$3,252
Inventories, net:		
Raw materials and supplies	$27,438	$19,703
Work in process	24,695	12,219
Finished goods	15,547	20,333
	67,680	52,255
Inventory reserves	(13,758)	(14,120)
	$53,922	$38,135
Property, plant and equipment, net:		
Buildings and building improvements (2)	$31,132	$3,060
Leasehold improvements	14,009	15,763
Data processing equipment and software	27,333	24,549
Machinery, equipment, furniture and fixtures	44,331	48,998
Construction in progress (2)	—	19,396
	116,805	111,766
Accumulated depreciation	(64,574)	(64,225)
	$52,231	$47,541
Accrued expenses and other current liabilities:		
Wages and benefits	$19,101	$19,779
Accrued customer obligations (3)	8,549	8,270
Commissions and professional fees	2,318	2,640
Deferred rent	1,896	1,097
Severance	1,290	1,468
Other	8,252	5,614
	$41,406	$38,868

(1) All short-term investments were classified as available-for-sale and were measured at fair value based on level one measurement, or quoted market prices, as defined by ASC 820. As of June 28, 2014 and September 28, 2013, 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 and nine months ended June 28, 2014 and June 29, 2013.

(2) Pursuant to ASC No. 840, Leases, the Company was considered to be the owner of the building during the construction phase for the Agreement to Develop and Lease (the “ADL”) facility being developed by Mapletree Industrial Trust (the “Landlord”) in Singapore—see Notes 7 and 12 below. The building was completed on December 1, 2013 and the construction costs incurred

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in relation to the relevant proportion of the Company's lease were recognized on the Consolidated Balance Sheet as of June 28, 2014.

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

NOTE 3: GOODWILL AND INTANGIBLE ASSETS

Goodwill

Intangible assets classified as goodwill are not amortized. The Company performs an annual impairment test of its goodwill during the fourth quarter of each fiscal year, which coincides with the completion of its annual forecasting and refreshing of business outlook process. The Company performed its annual impairment test in the fourth quarter of fiscal 2013 and concluded that no impairment charge was required. During the nine months ended June 28, 2014, the Company reviewed the 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.

In 2008, the Company acquired Orthodyne and added wedge bonder products to the business.

Intangible Assets

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

The following table reflects net intangible assets as of June 28, 2014 and September 28, 2013:

(dollar amounts in thousands)	As of June 28, 2014	September 28, 2013	Average estimated useful lives (in years)
Wedge bonder developed technology	$33,200	$33,200	7.0
Accumulated amortization	(27,273)	(23,715)	
Net wedge bonder developed technology	$5,927	$9,485	
Wedge bonder customer relationships	$19,300	$19,300	5.0
Accumulated amortization	(19,300)	(19,300)	
Net wedge bonder customer relationships	$—	$—	
Wedge bonder trade name	$4,600	$4,600	8.0
Accumulated amortization	(3,306)	(2,876)	
Net wedge bonder trade name	$1,294	$1,724	
Wedge bonder other intangible assets	$2,500	$2,500	1.9
Accumulated amortization	(2,500)	(2,500)	
Net wedge bonder other intangible assets	$—	$—	
Net intangible assets	$7,221	$11,209	

The following table reflects estimated annual amortization expense related to intangible assets as of June 28, 2014:

(in thousands)	As of June 28, 2014
Remaining fiscal 2014	$1,330
Fiscal 2015	5,318

Fiscal 2016	573
Total amortization expense	$7,221

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NOTE 4: CASH, CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS

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

Cash and cash equivalents consisted of the following as of June 28, 2014:

(dollar amounts in thousands)	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
Current assets:				
Cash	$137,854	$—	$—	$137,854
Cash equivalents:				
Money market funds	260,885	—	—	260,885
Time deposits	198,718	—	—	198,718
Total cash and cash equivalents	$597,457	$—	$—	$597,457
Short-term investments:				
Time deposits	2,600	—	—	2,600
Total short-term investments	$2,600	$—	$—	$2,600
Total cash, cash equivalents and short-term investments	$600,057	$—	$—	$600,057

Cash and cash equivalents consisted of the following as of September 28, 2013:

(dollar amounts in thousands)	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
Current assets:				
Cash	$113,295	$—	$—	$113,295
Cash equivalents:				
Money market funds	226,272	—	—	226,272
Time deposits	182,221	—	—	182,221
Total cash and cash equivalents	$521,788	$—	$—	$521,788
Short-term investments				
Time deposits	3,252	—	—	3,252
Total short-term investments	$3,252	$—	$—	$3,252
Total cash, cash equivalents and short-term investments	$525,040	$—	$—	$525,040

NOTE 5: FAIR VALUE MEASURMENTS

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 and nine months ended June 28, 2014.

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.

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Fair Value of Financial Instruments Amounts reported as cash and equivalents, short-term investments, accounts receivables, prepaid expenses and other current assets, accounts payable and accrued expenses approximate fair value. The fair value of our financial assets and liabilities at June 28, 2014 were determined using the following inputs:

(dollar amounts in thousands)	Fair Value Measurements at Reporting Date Using			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Cash	$137,854	$137,854	$—	$—
Cash equivalents:				
Money market funds	260,885	260,885	—	—
Time deposits	198,718	198,718	—	—
Short-term investments:				
Time deposits	2,600	2,600	—	—
Total assets	$600,057	$600,057	$—	$—

The fair value of our financial assets and liabilities at September 28, 2013 were determined using the following inputs:

(dollar amounts in thousands)	Fair Value Measurements at Reporting Date Using			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Cash	$113,295	$113,295	$—	$—
Cash equivalents				
Money market funds	226,272	226,272	—	—
Time deposits	182,221	182,221	—	—
Short-term investments				
Time deposits	3,252	3,252	—	—
Total assets	$525,040	$525,040	$—	$—

NOTE 6: 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 denominated in local currencies are 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 6 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 statements of income as the impact of the hedged transaction.

The fair value of derivative instruments on our Consolidated Balance Sheets as of June 28, 2014 and September 28, 2013 was as follows:

(in thousands)	As of June 28, 2014			September 28, 2013		
	Notional Amount	Fair Value Asset Derivatives(1)	Fair Value Liability Derivatives(2)	Notional Amount	Fair Value Asset Derivatives(1)	Fair Value Liability Derivatives(2)
Derivatives designated as hedging instruments:						
Foreign exchange forward contracts (3)	$7,863	$72	$—	$—	$—	$—
Total derivatives	$7,863	$72	$—	$—	$—	$—

(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 Balance Sheets.
(2) Included in accrued expenses and other current liabilities on our Consolidated Balance Sheets.
(3) Hedged amounts expected to be recognized to income within the next twelve months.

The effect of derivative instruments designated as cash flow hedges in our Consolidated Statements of Income for three months and nine months ended June 28, 2014 and June 29, 2013 was as follows:

(in thousands)	Three months ended		Nine months ended	
	June 28, 2014	June 29, 2013	June 28, 2014	June 29, 2013
Foreign exchange forward contract in cash flow hedging relationships:				
Net gain recognized in OCI, net of tax(1)	$95	$—	$95	$—
Net gain reclassified from accumulated OCI into income, net of tax(2)	$23	$—	$23	$—
Net gain recognized in income(3)	$—	$—	$—	$—

(1)Net change in the fair value of the effective portion classified in other comprehensive income (“OCI”).
(2)Effective portion classified as selling, general and administrative expense.
(3)Ineffective portion and amount excluded from effectiveness testing classified in selling, general and administrative expense.

NOTE 7: DEBT AND OTHER OBLIGATIONS

Agreement to Develop and Lease and Lease Agreement

On May 7, 2012, Kulicke & Soffa Pte Ltd. (“Pte” or the "Tenant"), the Company's wholly owned subsidiary, entered into the ADL with DBS Trustee Limited as trustee of Mapletree Industrial Trust (the “Landlord”). Pursuant to the ADL, the Landlord agreed to develop a building at 23A Serangoon North Avenue 5, #01-01 K&S Corporate Headquarters, Singapore 554369 (the “Building”).

The lease has a ten year non-cancellable term (the "Initial Term") and contains options to renew for two further 10-year terms. The annual rent and service charge for the Initial Term range from approximately $4 million to approximately $5 million Singapore dollars. The Tenant has a right of first refusal for all space that becomes available in the Building and the Landlord has agreed to make available a certain amount of additional space for rental by the Tenant at the Tenant’s option which may be exercised at certain points during the second half of the Initial Term. Subject to the Tenant renting a minimum amount of space for a certain period, the Tenant has partial surrender

rights. In addition, the Tenant has termination rights after renting the Initial Premises for a certain period of time.
The Building was completed on December 1, 2013 and Pte signed a Lease Agreement with the Landlord to lease from the Landlord approximately 198,000 square feet (the “Initial Premises”), representing approximately 70% of the Building. In accordance with ASC No. 840, Leases ("ASC 840"), the Company was considered to be the owner of the Building during the construction phase due to its involvement in the asset construction. Following the completion of construction, we were required to perform a sale-leaseback analysis pursuant to ASC 840-40 to determine if we could remove the Landlord’s asset and associated financing obligation from the consolidated balance sheet. Our lease contained collateral, considered a prohibited form of continuing involvement under

ASC 840-40 and therefore involvement that 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 twenty-five 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 using an interest rate of 6.3% over the Initial Term. 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.

Bank Guarantee

On May 7, 2012, Pte obtained a bank guarantee from DBS Bank Ltd., which was furnished to the Landlord and expired on May 9, 2013, at which time Pte replaced the bank guarantee with a cash deposit of an equivalent amount. The cash deposit was refunded on December 6, 2013.

Credit facility

On November 22, 2013, the Company obtained a $5.0 million credit facility with Citibank in connection with the issuance of a bank guarantee of $3.4 million Singapore dollars to the Landlord in connection with the Lease Agreement. The bank guarantee is effective from December 1, 2013 to November 30, 2014.

NOTE 8: SHAREHOLDERS’ EQUITY AND EMPLOYEE BENEFIT PLANS

Common Stock and 401(k) Retirement Income Plan

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

The following table reflects the Company’s matching contributions to the Plan during the three and nine months ended June 28, 2014 and June 29, 2013:

	Three months ended		Nine months ended	
(in thousands)	June 28, 2014	June 29, 2013	June 28, 2014	June 29, 2013
Cash	$304	$323	$913	$1,082

Accumulated Other Comprehensive Income

The following table reflects accumulated other comprehensive income reflected on the Consolidated Balance Sheets as of June 28, 2014 and September 28, 2013:

	As of	
(in thousands)	June 28, 2014	September 28, 2013
Gain from foreign currency translation adjustments	$4,172	$4,182
Unrecognized actuarial gain, Switzerland pension plan, net of tax	(346)	(227)
Switzerland pension plan curtailment	(227)	(337)
Unrealized gain on hedging	72	—
Accumulated other comprehensive income	$3,671	$3,618

Equity-Based Compensation

As of June 28, 2014, the Company had seven equity-based employee compensation plans (the “Employee Plans”) and three director compensation plans (the “Director Plans”) (collectively, the “Plans”). Under these Plans, market-based share awards (collectively, “market-based restricted stock”), time-based share awards (collectively, “time-based restricted stock”), performance-based share awards (collectively, “performance-based restricted stock”), stock options, or common stock have been granted at

100% of the market price of the Company's common stock on the date of grant. As of June 28, 2014, the Company’s one active plan, the 2009 Equity Plan, had 3.7 million shares of common stock available for grant to its employees and directors.

- Market-based restricted stock entitles the employee to receive common shares of the Company on the award vesting date, if market performance objectives which measure relative total shareholder return (“TSR”) are attained. Relative TSR is calculated based upon the 90-calendar day average price of the Company's stock as compared to specific peer companies that comprise the Philadelphia Semiconductor Index. TSR is measured for the Company and each peer company over a performance period, which is generally three years. Vesting percentages range from 0% to 200% of awards granted. The provisions of the market-based restricted stock are reflected in the grant date fair value of the award; therefore, compensation expense is recognized regardless of whether or not the market condition is ultimately satisfied. Compensation expense is reversed if the award is forfeited prior to the vesting date.
- In general, stock options and time-based restricted stock awarded to employees vest annually over a three-year period provided the employee remains employed. The Company follows the non-substantive vesting method for stock options and recognizes compensation expense immediately for awards granted to retirement eligible employees, or over the period from the grant date to the date retirement eligibility is achieved.
- In general, performance-based restricted stock (“PSU”) entitles the employee to receive common shares of the Company on the three-year anniversary of the grant date (if employed by the Company) if return on invested capital and revenue growth targets set by the Management Development and Compensation Committee (“MDCC”) of the Board of Directors on the date of grant are met. If return on invested capital and revenue growth targets are not met, performance-based restricted stock does not vest. Certain PSUs vest based on achievement of strategic goals over a certain time period or periods set by the MDCC. If the strategic goals are not achieved, the PSUs do not vest.

Equity-based compensation expense recognized in the Consolidated Statements of Operations for the three and nine months ended June 28, 2014 and June 29, 2013 was based upon awards ultimately expected to vest. In accordance with ASC No. 718, Stock Based Compensation, forfeitures have been estimated at the time of grant and were based upon historical experience. The Company reviews the forfeiture rates periodically and makes adjustments as necessary.

The following table reflects restricted stock and common stock granted during the three and nine months ended June 28, 2014 and June 29, 2013:

	Three months ended		Nine months ended	
(shares in thousands)	June 28, 2014	June 29, 2013	June 28, 2014	June 29, 2013
Market-based restricted stock	11	—	335	343
Time-based restricted stock	27	42	634	581
Performance-based restricted stock	—	—	—	57
Common stock	16	19	48	56
Equity-based compensation in shares	54	61	1,017	1,037

The following table reflects total equity-based compensation expense, which includes restricted stock, stock options and common stock, included in the Consolidated Statements of Operations during the three and nine months ended June 28, 2014 and June 29, 2013:

	Three months ended		Nine months ended	
(in thousands)	June 28, 2014	June 29, 2013	June 28, 2014	June 29, 2013
Cost of sales	$82	$53	$269	$275
Selling, general and administrative	2,182	2,125	6,924	6,375
Research and development	471	418	1,624	1,438
Total equity-based compensation expense	$2,735	$2,596	$8,817	$8,088

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The following table reflects equity-based compensation expense, by type of award, for the three and nine months ended June 28, 2014 and June 29, 2013:

	Three months ended		Nine months ended	
(in thousands)	June 28, 2014	June 29, 2013	June 28, 2014	June 29, 2013
Market-based restricted stock	$1,237	$1,042	$3,879	$3,175
Time-based restricted stock	1,250	1,303	4,225	4,171
Performance-based restricted stock	32	33	98	75
Stock options	6	8	15	37
Common stock	210	210	600	630
Total equity-based compensation expense	$2,735	$2,596	$8,817	$8,088

NOTE 9: 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.
Diluted income per share is calculated using the weighted average number of shares of common stock outstanding during the period and, if there is net income during the period, the dilutive impact of common stock equivalents outstanding during the period.
The following tables reflect a reconciliation of the shares used in the basic and diluted net income per share computation for the three and nine months ended June 28, 2014 and June 29, 2013:

	Three months ended			
(in thousands, except per share)	June 28, 2014		June 29, 2013	
	Basic	Diluted	Basic	Diluted
NUMERATOR:				
Net income	$26,616	$26,616	$18,887	$18,887
DENOMINATOR:				
Weighted average shares outstanding - Basic	76,596	76,596	75,231	75,231
Stock options		117		108
Time-based restricted stock		442		535
Market-based restricted stock		450		599
Weighted average shares outstanding - Diluted		77,605		76,473
EPS:				
Net income per share - Basic	$0.35	$0.35	$0.25	$0.25
Effect of dilutive shares		(0.01	)	$—
Net income per share - Diluted		$0.34		$0.25

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(in thousands, except per share)	Nine months ended June 28, 2014 Basic	June 28, 2014 Diluted	June 29, 2013 Basic	June 29, 2013 Diluted
NUMERATOR:				
Net income	$33,729	$33,729	$29,827	$29,827
DENOMINATOR:				
Weighted average shares outstanding - Basic	76,308	76,308	75,083	75,083
Stock options		114		111
Time-based restricted stock		345		499
Market-based restricted stock		319		511
Weighted average shares outstanding - Diluted		77,086		76,204
EPS:				
Net income per share - Basic	$0.44	$0.44	$0.40	$0.40
Effect of dilutive shares		—		(0.01)
Net income per share - Diluted		$0.44		$0.39

NOTE 10: INCOME TAXES
The following table reflects the provision for income taxes and the effective tax rate for the nine months ended June 28, 2014 and June 29, 2013:

(dollar amounts in thousands)	Nine months ended June 28, 2014	June 29, 2013
Income from operations before income taxes	$39,633	$31,890
Provision for income taxes	5,904	2,063
Net income	$33,729	$29,827
Effective tax rate	14.9 %	6.5 %

For the nine months ended June 28, 2014, the effective income tax rate differed from the federal statutory rate primarily due to tax from foreign operations at a lower effective tax rate than the U.S. statutory rate and the impact of tax holidays, offset by an increase for deferred taxes on un-remitted earnings, discrete foreign tax liabilities, other U.S. current and deferred taxes and additional domestic and foreign expenses or benefits related to returns filed in the current period.

For the nine months ended June 29, 2013, the effective income tax rate differed from the federal statutory rate primarily due to tax from foreign operations at a lower effective tax rate than the U.S. statutory rate, the release of a prior year reserve and the impact of tax holidays, offset by an increase for deferred taxes on un-remitted earnings, other U.S. current and deferred taxes and additional domestic and foreign expenses or benefits related to returns filed in the current period.

The effective tax rate for the period ended June 28, 2014 of 14.9% increased from the effective rate for the fiscal period ended September 28, 2013 of 6.5% primarily due to the increased earnings in countries with higher statutory rates, additional discrete foreign tax liabilities and the release of a reserve in the prior period.

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

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NOTE 11: SEGMENT INFORMATION

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

The following table reflects operating information by segment for the three and nine months ended June 28, 2014 and June 29, 2013:

	Three months ended		Nine months ended	
(in thousands)	June 28, 2014	June 29, 2013	June 28, 2014	June 29, 2013
Net revenue:				
Equipment	$165,013	$125,103	$325,770	$316,088
Expendable Tools	15,504	16,078	48,066	45,242
Net revenue	180,517	141,181	373,836	361,330
Cost of sales:				
Equipment	88,749	67,632	173,933	175,204
Expendable Tools	6,611	7,635	18,709	19,867
Cost of sales	95,360	75,267	192,642	195,071
Gross profit:				
Equipment	76,264	57,471	151,837	140,884
Expendable Tools	8,893	8,443	29,357	25,375
Gross profit	85,157	65,914	181,194	166,259
Operating expenses:				
Equipment	48,460	40,997	125,620	118,237
Expendable Tools	5,113	6,050	16,087	16,760
Operating expenses	53,573	47,047	141,707	134,997
Income from operations:				
Equipment	27,804	16,474	26,217	22,647
Expendable Tools	3,780	2,393	13,270	8,615
Income from operations	$31,584	$18,867	$39,487	$31,262

The following table reflects assets by segment as of June 28, 2014 and September 28, 2013:

	As of	
(in thousands)	June 28, 2014	September 28, 2013
Segment assets:		
Equipment	$831,881	$764,793
Expendable Tools	107,982	98,201
Total assets	$939,863	$862,994

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The following tables reflect capital expenditures for the nine months ended June 28, 2014 and June 29, 2013, and depreciation expense for the three and nine months ended June 28, 2014 and June 29, 2013:

	Nine months ended	
(in thousands)	June 28, 2014	June 29, 2013
Capital expenditures:		
Equipment	$7,231	$4,425
Expendable Tools	2,365	1,532
Capital expenditures	$9,596	$5,957

	Three months ended		Nine months ended	
(in thousands)	June 28, 2014	June 29, 2013	June 28, 2014	June 29, 2013
Depreciation expense				
Equipment	$1,518	$1,898	$4,130	$5,599
Expendable Tools	662	606	1,877	1,820
Depreciation expense	$2,180	$2,504	$6,007	$7,419

NOTE 12: COMMITMENTS, CONTINGENCIES AND CONCENTRATIONS

Agreement to Develop and Lease

On May 7, 2012, Pte entered into the ADL and a Lease Agreement with DBS Trustee Limited as trustee of the Landlord. Pursuant to the ADL, the Landlord agreed to develop a building at 23A Serangoon North Avenue 5, #01-01 K&S Corporate Headquarters, Singapore 554369 and Pte agreed to lease from the Landlord approximately 198,000 square feet (the “Initial Premises”) representing approximately 70% of the Building. The Building was completed on December 1, 2013.

Warranty Expense

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

The following table reflects the reserve for product warranty activity for the three and nine months ended June 28, 2014 and June 29, 2013:

	Three months ended		Nine months ended	
(in thousands)	June 28, 2014	June 29, 2013	June 28, 2014	June 29, 2013
Reserve for product warranty, beginning of period	$885	$1,163	$1,194	$2,412
Provision for product warranty	784	379	1,284	443
Product warranty costs paid	(375)	(468)	(1,184)	(1,781)
Reserve for product warranty, end of period	$1,294	$1,074	$1,294	$1,074

Other Commitments and Contingencies

The following table reflects obligations not reflected on the Consolidated Balance Sheet as of June 28, 2014:

		Payments due by fiscal year				
(in thousands)	Total	2014	2015	2016	2017	thereafter
Inventory purchase obligation (1)	$133,542	$133,542	$—	$—	$—	$—
Operating lease obligations (2)	29,716	1,143	3,154	3,177	2,974	19,268

Total	$163,258	$134,685	$3,154	$3,177	$2,974	$19,268

(1) The Company orders inventory components in the normal course of its business. A portion of these orders are non-cancelable and a portion may have varying penalties and charges in the event of cancellation.

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

(2) The Company has minimum rental commitments under various leases (excluding taxes, insurance, maintenance and repairs, which are also paid by the Company) primarily for various facility and equipment leases, which expire periodically through 2018 (not including lease extension options, if applicable).

Pursuant to ASC No. 840, Leases, for lessee's involvement in asset construction, the Company was considered the owner of the Building during the construction phase of the ADL. This financing obligation is not reflected in the table above. The Company has recorded a financing obligation of $19.6 million on the balance sheet as of June 28, 2014.

Concentrations

There is no significant customer that represents 10% or more of our net revenue for the nine months ended June 28, 2014 and June 29, 2013.

The following table reflects significant customer concentrations as a percentage of total accounts receivable as of June 28, 2014 and June 29, 2013:

	As of			
	June 28, 2014		June 29, 2013	
Haoseng Industrial Co., Ltd	15.3	%	15.0	%
STATS ChipPAC Ltd	*		19.0	%
Siliconware Precision Industries Co. Limited	*		13.0	%

* Represents less than 10% of total accounts receivable

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

Forward-Looking Statements

In addition to historical information, this filing contains statements relating to future events or our future results. These statements are forward-looking statements within the meaning of 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 demand for our products, the continuing transition from gold to copper wire bonding, replacement demand, our research and development efforts, our ability to identify and realize new growth opportunities, our ability to control costs and our operational flexibility as a result of (among other factors):

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

Generally, words such as "may," "will," "should," "could," "anticipate," "expect," "intend," "estimate," "plan," "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 28, 2013 (the "Annual Report") and our other reports and registration statements filed from time to time with the Securities and Exchange Commission. This discussion should be read in conjunction with the Consolidated Financial Statements and Notes included in this report, as well as our audited financial statements included in the Annual Report.

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

OVERVIEW

Kulicke and Soffa Industries, Inc. (the "Company" or "K&S") designs, manufactures and sells capital equipment and expendable tools used to assemble semiconductor devices, including integrated circuits ("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, outsourced semiconductor assembly and test providers ("OSATs"), other electronics manufacturers and automotive electronics suppliers.

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

Business Environment

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

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

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

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

To limit potential adverse cyclical, seasonal and macroeconomic effects on our financial position, we have de-leveraged and strengthened our balance sheet. As of June 28, 2014, our total cash, cash equivalents and short-term investments were $600.1 million, a $75.0 million increase from the prior fiscal year end. We believe this strong cash position will allow us to continue to invest in organic product development and non-organic opportunities.

Technology Leadership

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

In addition to gold, 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. Based on our industry leading copper bonding processes and the continued high price of gold, we believe the demand for copper configured wire bonders is likely to remain solid.

Our leadership has allowed us to maintain a competitive position in the latest generations of gold and copper ball bonders, which enable our customers to handle the leading technologies in terms of bond pad pitch, silicon with the latest node and complex wire bonding requirement. We continue to see demand for our large bondable area (“LA”) configured machines. This LA option is now available on all of our Power Series (“PS”) models and allows our customers to gain added efficiencies and to reduce the cost of packaging.

We also leverage the technology leadership of our equipment by optimizing our bonder platforms, and we deliver variants of our products to serve emerging high-growth markets. For example, we have developed extensions of our main ball bonding platforms to address opportunities in LED assembly, in particular for general lighting. We expect the next wave of growth in the LED market to be high brightness LED for general lighting. We also believe there is an opportunity for growth in wire bonding sales at wafer level using our ATPremier Plus.

Furthermore, we gain synergies by leveraging technologies between our unique platforms. Our leading technology for wedge bonder equipment uses aluminum ribbon or heavy wire as opposed to fine gold and fine copper wire used in ball bonders. In 2013, we launched a new line of high performance wedge bonder products, PowerFusion^{PS}. The advanced interconnect capabilities of PowerFusion^{PS} improve the processing of high-density power packages, due to an expanded bondable area, wider leadframe capability, superior indexing accuracy and teach mode. We have also initiated the design and development of our next generation hybrid wedge bonder which is due to be released in 2015. In both 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 in

maintaining our leadership position in the wedge bonding market and increase synergies between the various engineering product groups. Furthermore, we continually research adjacent market segments where our technologies could be used. Many of these initiatives are in the early stages of development and may become business opportunities in the future.
Another example of our developing equipment for high-growth niche markets is our AT Premier 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 enable us to develop highly function-specific equipment with best-in-class throughput and accuracy. This forms the foundation for our advanced packaging equipment development. We have established a dedicated team to develop advanced packaging bonders for the emerging three-dimensional integrated circuit (“3D IC”) market, and in November 2013, we shipped the first TCB (Thermal Compression Bonder) C2S (Chip-to-Substrate) alpha machine to a strategic customer. We have recently shipped the first C2S beta machine to one of our customers. 3D ICs save space, reduce footprint, form factor and enable stacking of separate chips in a single package, thus expanding overall IC functionality. It also improves performance while reducing power consumption. Mobile devices such as smartphones and tablets are the main drivers of this market.
We bring the same technology focus to our expendable tools business, driving tool design and manufacturing technology to optimize the performance and process capability of the equipment in which our tools are used. For all our equipment products, expendable tools are an integral part of their process capability. We believe our unique ability to simultaneously develop both equipment and tools is a core strength supporting our products' technological differentiation.
Products and Services
We supply a range of bonding equipment and expendable tools. The following tables reflect net revenue by business segment for the three and nine months ended June 28, 2014 and June 29, 2013, respectively:

	Three months ended					
	June 28, 2014			June 29, 2013		
(dollar amounts in thousands)	Net revenues	% of total net revenue		Net revenues	% of total net revenue	
Equipment	$165,013	91.4	%	$125,103	88.6	%
Expendable Tools	15,504	8.6	%	16,078	11.4	%
	$180,517	100.0	%	$141,181	100.0	%

	Nine months ended					
	June 28, 2014			June 29, 2013		
(dollar amounts in thousands)	Net revenues	% of total net revenue		Net revenues	% of total net revenue	
Equipment	$325,770	87.1	%	$316,088	87.5	%
Expendable Tools	48,066	12.9	%	45,242	12.5	%
	$373,836	100.0	%	$361,330	100.0	%

Equipment Segment
We manufacture and sell a line of ball bonders, heavy wire wedge bonders and wafer level bonders that are sold to semiconductor device manufacturers, OSATs, other electronics manufacturers and automotive electronics suppliers. Ball bonders are used to connect very fine wires, typically made of gold or copper, between the bond pads of the semiconductor device, or die, and the leads on its package. Heavy wire wedge bonders use either aluminum wire or ribbon to perform the same function in packages that cannot use gold or copper wire because of either high electrical current requirements or other package reliability issues. Wafer level bonders mechanically apply bumps to die,

typically while still in the wafer format, for some variants of the flip chip assembly process. We believe our equipment offers competitive advantages by providing customers with high productivity/throughput, superior package quality/process control, and as a result, a lower cost of ownership.

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Our principal Equipment segment products include:

Business Unit	Product Name (1)	Typical Served Market
Ball bonders	IConn^{PS}	Advanced and ultra fine pitch applications
	IConn^{PS} Plus	Advanced and ultra fine pitch applications
	IConn^{PS} LA	Large area substrate and matrix applications
	IConn^{PS} Plus LA	Large area substrate and matrix applications
	IConn^{PS} ProCu	High-end copper wire applications demanding advanced process capability and high productivity
	IConn^{PS} ProCu Plus	High-end copper wire applications demanding advanced process capability and high productivity
	IConn^{PS} ProCu LA	Large area substrate and matrix applications for copper wire
	IConn^{PS} ProCu Plus LA	Large area substrate and matrix applications for copper wire
	ConnX^{PS} Plus	High productivity bonder for low-to-medium pin count applications
	ConnX^{PS} LED	LED applications
	ConnX^{PS} VLED	Vertical LED applications
	ConnX^{PS} Plus LA	Cost performance large area substrate and matrix applications
	AT Premier Plus	Advanced wafer level bonding application
Wedge bonders	3600Plus	Power hybrid and automotive modules using either heavy aluminum wire or PowerRibbon®
	3700Plus	Hybrid and automotive modules using thin aluminum wire
	7200Plus	Power semiconductors using either aluminum wire or PowerRibbon®
	7200HD	Smaller power packages using either aluminum wire or PowerRibbon®
	PowerFusion^{PS} TL	Power semiconductors using either aluminum wire or PowerRibbon®
	PowerFusion^{PS} HL	Advanced power packages using either aluminum wire or PowerRibbon®

(1) Power Series (“PS”)

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Ball Bonders

Automatic ball bonders represent the largest portion of our semiconductor equipment business. Our main product platform for ball bonding is the Power Series - a family of assembly equipment that is setting new standards for performance, productivity, upgradeability, and ease of use.

Our portfolio of ball bonding products includes:

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

In March 2014, we introduced the IConn^{PS} Plus and IConn^{PS} Plus LA, which offer new capabilities and enhanced features. IConn^{PS} Plus LA is the large area version which extends the bondable width up to 87 millimeter.

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

Heavy Wire Wedge Bonders

We are the leaders in the design and manufacture of heavy wire wedge bonders for the power semiconductor and automotive power module markets. Heavy wire wedge bonders may use either aluminum wire or aluminum ribbon to connect semiconductor chips in power packages, power hybrids and automotive modules for products such as motor control modules or inverters for hybrid cars. In addition, we see some potential use for our wedge bonder products in 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 7200Plus: dual head wedge bonders designed specifically for power semiconductor applications.
- The 7200HD: heavy wire wedge bonders designed for smaller power packages using either aluminum wire or ribbon.
- The PowerFusion^{PS} Semiconductor Wedge Bonders - Configurable in single, dual and multi-head configurations using aluminum wire and PowerRibbon™:

  The PowerFusion^{PS} TL: designed for low-cost, high volume power semiconductor applications.

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

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

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

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Other Equipment Products and Services

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

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

Expendable Tools Segment

We manufacture and sell a variety of expendable tools for a broad range of semiconductor packaging applications. Our principal Expendable Tools segment products include:

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

The Opto$_{\text{ceramic}}$ and Opto$_{\text{PCB}}$ package singulation blades for the LED market enable an improvement on package singulation quality, precision and productivity by providing a significantly longer life blade, and improved stability. We also introduced ACS Pro Capillary, which is a new generation of copper capillary for advanced copper wire bonding applications.

In March 2014, we expanded the ACS series capillaries through the introduction of ACS Max and ACS Lite. ACS Max Capillary and ACS Lite are the new generation of copper capillary for medium-pin count and low-pin count copper wire applications.

RESULTS OF OPERATIONS

The following tables reflect our income from operations for the three and nine months ended June 28, 2014 and June 29, 2013:

	Three months ended			
(dollar amounts in thousands)	June 28, 2014	June 29, 2013	$ Change	% Change
Net revenue	$180,517	$141,181	$39,336	27.9 %
Cost of sales	95,360	75,267	20,093	26.7 %
Gross profit	85,157	65,914	19,243	29.2 %
Selling, general and administrative	30,093	31,264	(1,171)	(3.7)%
Research and development	23,480	15,783	7,697	48.8 %
Operating expenses	53,573	47,047	6,526	13.9 %
Income from operations	$31,584	$18,867	$12,717	67.4 %

	Nine months ended			
(dollar amounts in thousands)	June 28, 2014	June 29, 2013	$ Change	% Change
Net revenue	$373,836	$361,330	$12,506	3.5 %
Cost of sales	192,642	195,071	(2,429)	(1.2)%
Gross profit	181,194	166,259	14,935	9.0 %
Selling, general and administrative	81,430	88,754	(7,324)	(8.3)%

Research and development	60,277	46,243	14,034	30.3	%
Operating expenses	141,707	134,997	6,710	5.0	%
Income from operations	$39,487	$31,262	$8,225	26.3	%

Our net revenues for the nine months ended June 28, 2014 increased as compared to our net revenues for the nine months ended June 29, 2013 largely due to higher customer demand. 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 96.2% and 95.8% of our net revenue for the three months ended June 28, 2014 and June 29, 2013, respectively, was for shipments to customer locations outside of the U.S., primarily in the Asia/Pacific region. Likewise, approximately 94.1% and 96.5% of our net revenue for the nine months ended June 28, 2014 and June 29, 2013, respectively, was for shipments to customer locations outside of the U.S. We expect sales outside of the U.S. to continue to represent a substantial majority of our future revenue.

The following tables reflect net revenue by business segment for the three and nine months ended June 28, 2014 and June 29, 2013:

	Three months ended			
(dollar amounts in thousands)	June 28, 2014	June 29, 2013	$ Change	% Change
Equipment	$165,013	$125,103	$39,910	31.9%
Expendable Tools	15,504	16,078	(574)	(3.6)%
Total net revenue	$180,517	$141,181	$39,336	27.9%

	Nine months ended			
(dollar amounts in thousands)	June 28, 2014	June 29, 2013	$ Change	% Change
Equipment	$325,770	$316,088	$9,682	3.1%
Expendable Tools	48,066	45,242	2,824	6.2%
Total net revenue	$373,836	$361,330	$12,506	3.5%

Equipment

The following table reflects the components of Equipment net revenue change between the three and nine months ended June 28, 2014 and June 29, 2013:

	June 28, 2014 vs. June 29, 2013					
	Three months ended			Nine months ended		
(in thousands)	Price	Volume	$ Change	Price	Volume	$ Change
Equipment	$6,204	$33,706	$39,910	$5,924	$3,758	$9,682

For the three months ended June 28, 2014, the higher Equipment net revenue as compared to the prior year period was primarily due to the higher volume and pricing on our ball bonders and wedge bonders. The higher volume on ball bonders was primarily due to the strong demand for cost-performance machines. The higher volume on wedge bonders was driven by the sale of the new product family which was introduced in the third quarter of FY2013. In addition to the higher volume, pricing on our ball bonders and wedge bonders were also higher due to favorable product mix.

For the nine months ended June 28, 2014, the higher Equipment net revenue as compared to the prior year period was primarily due to the favorable product mix for ball bonders and wedge bonders.

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Expendable Tools

The following table reflects the components of Expendable Tools net revenue change between the three and nine months ended June 28, 2014 and June 29, 2013:

	June 28, 2014 vs. June 29, 2013					
	Three months ended			Nine months ended		
(in thousands)	Price	Volume	$ Change	Price	Volume	$ Change
Expendable Tools	$(1,029)	$455	$(574)	$(567)	$3,391	$2,824

For the three months ended June 28, 2014, the lower Expendable Tools net revenue as compared to the prior year period was primarily due to the price reduction in our wire bonding tools business and the adjustment relating to the pricing discounts given to certain distributors that resulted in the decrease in the selling, general and administrative expense ("SG&A") and the revenue in our wedge bonder business.

For the nine months ended June 28, 2014, the higher Expendable Tools net revenue as compared to the prior period was primarily due to volume increase in wire bonding business and wedge bonder tools. This was partially offset by price reduction in wire bonding tools business and adjustment of the pricing discounts given to certain distributors as explained above.

Gross Profit

The following tables reflect gross profit by business segment for the three and nine months ended June 28, 2014 and June 29, 2013:

	Three months ended			
(dollar amounts in thousands)	June 28, 2014	June 29, 2013	$ Change	% Change
Equipment	$76,264	$57,471	$18,793	32.7 %
Expendable Tools	8,893	8,443	450	5.3 %
Total gross profit	$85,157	$65,914	$19,243	29.2 %

	Nine months ended			
(dollar amounts in thousands)	June 28, 2014	June 29, 2013	$ Change	% Change
Equipment	$151,837	$140,884	$10,953	7.8 %
Expendable Tools	29,357	25,375	3,982	15.7 %
Total gross profit	$181,194	$166,259	$14,935	9.0 %

The following tables reflect gross profit as a percentage of net revenue by business segment for the three and nine months ended June 28, 2014 and June 29, 2013:

	Three months ended		Basis Point
	June 28, 2014	June 29, 2013	Change
Equipment	46.2 %	45.9 %	30
Expendable Tools	57.4 %	52.5 %	490
Total gross margin	47.2 %	46.7 %	50

	Nine months ended		Basis Point
	June 28, 2014	June 29, 2013	Change
Equipment	46.6 %	44.6 %	200
Expendable Tools	61.1 %	56.1 %	500
Total gross margin	48.5 %	46.0 %	250

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Equipment

The following table reflects the components of Equipment gross profit change between the three and nine months ended June 28, 2014 and June 29, 2013:

	June 28, 2014 vs. June 29, 2013							
	Three months ended				Nine months ended			
(in thousands)	Price	Cost	Volume	$ Change	Price	Cost	Volume	$ Change
Equipment	$6,204	$(2,923)	$15,512	$18,793	$5,924	$2,707	$2,322	$10,953

For the three months ended June 28, 2014, the higher Equipment gross profit as compared to the prior year period was primarily due to the higher volume on our ball bonders and wedge bonders. The higher volume on ball bonders was primarily due to the strong demand for cost-performance machines. The higher volume on wedge bonders was driven by the sale of the new product family which was introduced in the third quarter of FY2013. In addition to the higher volume, we experienced higher pricing offset by higher cost due to product mix.

For the nine months ended June 28, 2014, the higher Equipment gross profit as compared to the prior year period was primarily due to the higher volume and higher pricing on our ball bonders and wedge bonders due to favorable product mix. In addition, the manufacturing costs were lower due to the efficiency from the continued consolidation of our production facilities.

Expendable Tools

The following table reflects the components of Expendable Tools gross profit change between the three and nine months ended June 28, 2014 and June 29, 2013:

	June 28, 2014 vs. June 29, 2013							
	Three months ended				Nine months ended			
(in thousands)	Price	Cost	Volume	$ Change	Price	Cost	Volume	$ Change
Expendable Tools	$(1,029)	$1,161	$318	$450	$(567)	$2,474	$2,075	$3,982

For the three and nine months ended June 28, 2014, the higher Expendable Tools gross profit as compared to the prior year period primarily due to higher volume and lower cost due to higher absorption of the fixed manufacturing costs. This was partially offset by the adjustment relating to the pricing discounts given to certain distributors that resulted in the decrease in the SG&A expense and the revenue in our wedge bonder business.

Operating Expenses

The following tables reflect operating expenses as a percentage of net revenue for the three and nine months ended June 28, 2014 and June 29, 2013:

	Three months ended		Basis point
	June 28, 2014	June 29, 2013	change
Selling, general & administrative	16.7 %	22.1 %	(540)
Research & development	13.0 %	11.2 %	180
Total	29.7 %	33.3 %	(360)

	Nine months ended		Basis point
	June 28, 2014	June 29, 2013	change
Selling, general & administrative	21.8 %	24.6 %	(280)
Research & development	16.1 %	12.8 %	330
Total	37.9 %	37.4 %	50

Selling, General and Administrative ("SG&A")
SG&A decreased $1.2 million for the three months ended June 28, 2014 as compared to the three months ended June 29, 2013 primarily due to net impact of the adjustment relating to the pricing discounts given to certain distributors of $1.9 million that resulted in the decrease in the SG&A expense and the revenue, decrease in amortization expenses of $1.0 million due to intangible assets relating to the Orthodyne customer relationships being fully amortized, and a decrease of severance expenses of $0.7 million. This was partially offset by an increase in incentive compensation of $1.4 million due to higher net revenue for the current fiscal quarter and an increase in professional services of $0.9 million.
SG&A decreased $7.3 million for the nine months ended June 28, 2014 as compared to the nine months ended June 29, 2013 primarily due to a decrease in amortization expenses of $2.9 million due to the intangible assets relating to the Orthodyne customer relationships being fully amortized, net favorable variance of $1.8 million in foreign exchange rates due to the strengthening of the U.S dollar against the foreign currency denominated liabilities which increased in the current period, net impact of the adjustment of the pricing discounts given to certain distributors of $1.3 million that resulted in the decrease in the SG&A expense and the revenue, a decrease in depreciation expense of $0.7 million as a result of accelerated depreciation being recorded in FY13 relating to the move of the new corporate headquarters in Singapore, and a decrease in staff costs of $0.6 million due to lower headcount.
Research and Development ("R&D")
R&D expense increased $7.7 million for the three months ended June 28, 2014 as compared to the three months ended June 29, 2013 primarily due to additional investment in the development of new products.
R&D expense increased $14.0 million for the nine months ended June 28, 2014 as compared to the nine months ended June 29, 2013, during which we recognized a Research Incentive Scheme for Companies grant of $0.7 million. In the nine months ended June 28, 2014, we invested an additional $13.2 million in the development of new products.
Income from Operations
For the three months ended June 28, 2014, total income from operations was higher by $12.7 million. This was primarily due to higher revenue and margin for equipment sales as explained above.
For the nine months ended June 28, 2014, total income from operations was higher by $8.2 million. This was primarily due to higher revenue and margin for equipment sales as explained above.
Interest Income and Expense
The following tables reflect interest income and interest expense for the three and nine months ended June 28, 2014 and June 29, 2013:

	Three months ended			
(dollar amounts in thousands)	June 28, 2014	June 29, 2013	$ Change	% Change
Interest income	$256	$267	$(11)	(4.1)%
Interest expense	$(316)	$—	$(316)	

	Nine months ended			
(dollar amounts in thousands)	June 28, 2014	June 29, 2013	$ Change	% Change
Interest income	$878	$629	$249	39.6%
Interest expense	$(732)	$(1)	$(731)	

Interest income for the nine months ended June 28, 2014 was higher as compared to the nine months ended June 29, 2013 due to higher interest income derived from short term investments and a larger cash and cash equivalents balance.

Interest expense for the three months and nine months ended June 28, 2014 was attributable to the interest on financing obligation relating to the new building. (Refer to Note 7 of Item 1)

Provision for Income Taxes

The following table reflects the provision for income taxes and the effective tax rate for the nine months ended June 28, 2014 and June 29, 2013:

	Nine months ended	
(in thousands)	June 28, 2014	June 29, 2013
Income from operations before income taxes	$39,633	$31,890
Provision for income taxes	5,904	2,063
Net income	$33,729	$29,827
Effective tax rate	14.9 %	6.5 %

For the nine months ended June 28, 2014, the effective income tax rate differed from the federal statutory rate primarily due to tax from foreign operations at a lower effective tax rate than the U.S. statutory rate and the impact of tax holidays, offset by an increase for deferred taxes on un-remitted earnings, discrete foreign tax liabilities, other U.S. current and deferred taxes and additional domestic and foreign expenses or benefits related to returns filed in the current period.

For the nine months ended June 29, 2013, the effective income tax rate differed from the federal statutory rate primarily due to tax from foreign operations at a lower effective tax rate than the U.S. statutory rate, the release of a prior year reserve and the impact of tax holidays, offset by an increase for deferred taxes on un-remitted earnings, other U.S. current and deferred taxes and additional domestic and foreign expenses or benefits related to returns filed in the current period.

The effective tax rate for the period ended June 28, 2014 of 14.9% increased from the effective rate for the fiscal period ended September 28, 2013 of 6.5% primarily due to the increased earnings in countries with higher statutory rates, additional discrete foreign tax liabilities and the release of a reserve in the prior period.

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

LIQUIDITY AND CAPITAL RESOURCES

The following table reflects total cash and investments as of June 28, 2014 and September 28, 2013:

	As of		
(dollar amounts in thousands)	June 28, 2014	September 28, 2013	Change
Cash and cash equivalents	$597,457	$521,788	$75,669
Percentage of total assets	63.6 %	60.5 %	

The following table reflects summary Consolidated Statement of Cash Flow information for the nine months ended June 28, 2014 and June 29, 2013:

	Nine months ended	
(in thousands)	June 28, 2014	June 29, 2013
Net cash provided by operating activities	$84,189	$68,180
Net cash used in investing activities	(8,672)	(647)
Net cash provided by financing activities	205	868
Effect of exchange rate changes on cash and cash equivalents	(53)	(152)
Changes in cash and cash equivalents	$75,669	$68,249
Cash and cash equivalents, beginning of period	521,788	440,244
Cash and cash equivalents, end of period	$597,457	$508,493

Nine months ended June 28, 2014
Continuing Operations
Net cash provided by operating activities was primarily the result of net income of $33.7 million, non-cash adjustments of $21.0 million and working capital changes of $29.5 million. The change in working capital was primarily driven by increase in accounts payable of $30.3 million, decrease in accounts receivable of $8.6 million, decrease in the prepaid expenses and other current assets of $4.1 million, increase in income taxes payables of $2.6 million and others of $1.8 million. This was partially offset by a increase in inventories of $17.9 million.
The increase in accounts payable and inventories was due to higher purchases during the third quarter of fiscal 2014 in anticipation of an increase in production in the fourth quarter of fiscal 2014. The decrease in accounts receivable was due to cash collections in line with higher sales in the fourth quarter of fiscal 2013 due to variations in the timing of our customer orders within the seasonal cycle, as customers tend to add or replace equipment capacity by the end of the September quarter. The reduction in prepaid expenses and other current assets was due to net refunds of $2.7 million deposit in relation to the Agreement to Develop and Lease (the "ADL") following the execution of the Lease Agreement, and a reduction of $2.7 million in tax refunds offset by higher $0.6 million of goods and services tax.
Net cash used by investing activities was primarily due to capital expenditures of $9.3 million and purchase of short-term investments of $9.2 million offset by the maturity of short-term investments of $9.8 million.
Net cash provided by financing activities relates to proceeds from the exercise of stock options of $1.0 million offset by reversal of excess tax benefits from stock-based compensation arrangements of $0.8 million.
Nine months ended June 29, 2013
Continuing Operations
Net cash provided by operating activities was primarily the result of working capital changes, which provided $68.2 million driven by decreases in accounts receivables of $42.7 million due to cash collections in line with higher sales in the fourth quarter of fiscal 2012 due to variations in the timing of our customer orders within the seasonal cycle who tend to add or replace equipment capacity by the end of the September quarter, a reduction in inventories of $10.8 million partially offset by a decrease in accounts payable and accrued expenses of $31.3 million due to lower purchases and global shutdown in the first nine months of fiscal 2013 and decreases in income tax payable of $5.5 million. In addition, net income of $29.8 million plus non-cash adjustments of $22.1 million contributed to net cash provided by operating activities.
Net cash used by investing activities was primarily due to capital expenditure of $6.0 million offset by the disposal of a building of $5.3 million.
Net cash provided by financing activities relate to proceed from the exercise of stock options.
Fiscal 2014 Liquidity and Capital Resource Outlook
We expect our fiscal 2014 capital expenditures to be from $12.0 to $13.0 million of which approximately $6.4 million is related to leasehold improvements for our Singapore facility under the ADL. Other expenditures are anticipated to be used for R&D projects, enhancements to our manufacturing operations in Asia and improvements to our information technology infrastructure. We also consider strategic business opportunities from time to time which could require substantial capital outlays, including possible acquisitions, joint ventures, alliances or other business arrangements.
We believe that our existing cash and investments and anticipated cash flows from operations will be sufficient to meet our liquidity and capital requirements for at least the next twelve months. Our liquidity is affected by many factors, some based on normal operations of our business and others related to global economic conditions and industry uncertainties, which we cannot predict. We also cannot predict economic conditions and industry downturns or the timing, strength or duration of recoveries. We intend to continue to use our cash for working capital needs and for general corporate purposes.
We may seek, as we believe appropriate, additional debt or equity financing which would provide capital for corporate purposes, working capital funding, additional liquidity needs or to fund future growth opportunities. 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.

Other Obligations and Contingent Payments

Agreement to Develop and Lease and Lease Agreement

On May 7, 2012, Kulicke & Soffa Pte Ltd. (“Pte” or the "Tenant"), the Company's wholly owned subsidiary, entered into the ADL with DBS Trustee Limited as trustee of Mapletree Industrial Trust (the “Landlord”). Pursuant to the ADL, the Landlord agreed to develop a building at 23A Serangoon North Avenue 5, #01-01 K&S Corporate Headquarters, Singapore 554369 (the “Building”). The lease has a ten-year non-cancellable initial term (the "Initial Term") and contains options to renew for a further two ten-year terms. The annual rent and service charge for the Initial Term range between approximately $4 million to approximately $5 million Singapore dollars. The Tenant has a right of first refusal for all space that becomes available in the Building, and the Landlord has agreed to make available a certain amount of additional space for rental by the Tenant at the Tenant’s option, which may be exercised at certain points during the second half of the Initial Term. Subject to the Tenant renting a minimum amount of space for a certain period, the Tenant has partial surrender rights. In addition, the Tenant has termination rights after renting the Initial Premises (as defined below) for a certain period of time.

The Building was completed on December 1, 2013 and Pte signed a Lease Agreement with the Landlord to lease from the Landlord approximately 198,000 square feet (the “Initial Premises”), representing approximately 70% of the Building. In accordance with ASC No. 840, Leases ("ASC 840"), the Company was considered to be the owner of the Building during the construction phase due to its involvement in the asset construction. Following the completion of construction, we were required to perform a sale-leaseback analysis pursuant to ASC 840-40 to determine if we could remove the Landlord’s asset and associated financing obligation from the consolidated balance sheet. Our lease contained collateral, considered a prohibited form of continuing involvement under ASC 840-40, which therefore 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 twenty five 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 using an interest rate of 6.33% over the initial term. 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.

Other Obligations and Contingent Payments

In accordance with U.S. generally accepted accounting principles, certain obligations and commitments are not required to be included in the Consolidated Balance Sheets and Statements of Operations. These obligations and commitments, while entered into in the normal course of business, may have a material impact on our liquidity. Certain of the following commitments as of June 28, 2014 are appropriately not included in the Consolidated Balance Sheets and Statements of Operations included in this Form 10-Q; however, they have been disclosed in the table below for additional information.

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The following table reflects obligations and contingent payments under various arrangements as of June 28, 2014:

		Payments due by fiscal period			
(in thousands)	Total	Less than 1 year	1 - 3 years	3 - 5 years	More than 5 years
Current and long-term liabilities:					
Pension plan obligations	$1,982	$—	$—	$—	$1,982
Severance (1)	3,848	1,290	828	—	1,730
Operating lease retirement obligations	1,536	182	310	—	1,044
Long-term income taxes payable	2,702	—	—	—	2,702
Total Obligations and Contingent Payments reflected on the Consolidated Financial Statements	$10,068	$1,472	$1,138	$—	$7,458
Contractual Obligations:					
Inventory purchase obligations (2)	$133,542	$133,542	$—	$—	$—
Operating lease obligations (3)	29,716	3,396	6,366	5,118	14,836
Total Obligations and Contingent Payments not reflected on the Consolidated Financial Statements	$163,258	$136,938	$6,366	$5,118	$14,836

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

(2) 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.

(3) We have minimum rental commitments under various leases (excluding taxes, insurance, maintenance and repairs, which are also paid by us) primarily for various facility and equipment leases, which expire periodically through 2018 (not including lease extension options, if applicable).

On May 7, 2012, Pte entered into the ADL with the Landlord. Pursuant to the ADL, the Landlord agreed to develop a Building. The Building was completed on December 1, 2013 and Pte signed a Lease Agreement with the Landlord to lease from the Landlord approximately 198,000 square feet Initial Premises, representing approximately 70% of the Building. The term for the rental of the Initial Premises is 10 years. The Tenant has the option to renew for two additional ten-year terms. The annual rent and service charge for the Initial Term range from approximately $4 million to approximately $5 million Singapore dollars. The Tenant has a right of first refusal for all space that becomes available in the Building and the Landlord has agreed to make available a certain amount of additional space for rental by the Tenant at the Tenant's option which may be exercised at certain points during the second half of the Initial Term. Subject to the Tenant renting a minimum amount of space for a certain period, the Tenant has partial surrender rights. In addition, the Tenant has termination rights after renting the Initial Premises for a certain period of time.

In accordance with ASC No. 840, Leases ("ASC 840"), the Company was considered to be the owner of the Building during the construction phase due to its involvement in the asset construction. As a result of the Company's continued involvement during the lease term, the Company did not fulfill the criteria to apply sale-leaseback accounting under ASC 840. Therefore, at completion, the building remained on the Consolidated Balance Sheet, and the corresponding financing obligation was reclassified to long-term liability. As of June 28, 2014, we recorded a financing obligation of $19.6 million. The financing obligation is not reflected in the table above.

Off-Balance Sheet Arrangements

Bank Guarantee

On May 7, 2012, Pte obtained a bank guarantee from DBS Bank Ltd., which was furnished to the Landlord and expired on May 9, 2013, at which time Pte replaced the bank guarantee with a cash deposit of an equivalent amount. The cash deposit was refunded on December 6, 2013.

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Credit facility

On November 22, 2013, the Company obtained a $5.0 million credit facility with Citibank in connection with the issuance of a bank guarantee of $3.4 million Singapore dollars to the Landlord in connection with the Lease Agreement. The bank guarantee is effective from December 1, 2013 to November 30, 2014.

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

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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 to us of changes in interest rates and credit ratings of issuers are limited and would not have a material impact on our financial condition or results of operations. As of June 28, 2014, we had deposits maturing within one year of $2.6 million.

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 China, Japan, Germany and Taiwan. 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 June 28, 2014, a 10.0% fluctuation could impact our financial position, results of operations or cash flows by $3.0 to $4.0 million. We may enter into foreign exchange forward contracts and other instruments in the future; however, our attempts to hedge against these risks may not be successful and may result in a material adverse impact on our financial results and cash flow.

On March 31, 2014 and April 3, 2014, the Company entered into foreign exchange forward contracts of $7.5 million and $7.9 million respectively. We entered into these foreign exchange forward contracts to hedge a portion of our forecasted foreign currency-denominated expenses in the normal course of business and, accordingly, they are not speculative in nature. These foreign exchange forward contracts have maturities of up to six months.

Item 4. - CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of June 28, 2014. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that, as of June 28, 2014 our disclosure controls and procedures were effective in providing reasonable assurance the information required to be disclosed by us in reports filed under the Securities Exchange Act of 1934, as amended, is (i) recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms and (ii) accumulated and communicated to our management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding disclosure.

Changes in internal control over financial reporting

In connection with the evaluation by our management, including with the participation of our Chief Executive Officer and Chief Financial Officer, of our internal control over financial reporting, no changes during the three months ended June 28, 2014 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

Risks related to our business are detailed in our Annual Report on Form 10-K for the year ended September 28, 2013 filed with the Securities and Exchange Commission.

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Item 6. - EXHIBITS

Exhibit No.	Description
10.1	Amended and Restated Incentive Compensation Plan, incorporated herein by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed on May 8, 2014.
31.1	Certification of Bruno Guilmart, Chief Executive Officer of Kulicke and Soffa Industries, Inc., pursuant to Rule 13a-14(a) or Rule15d-14(a).
31.2	Certification of Jonathan Chou, Chief Financial Officer of Kulicke and Soffa Industries, Inc., pursuant to Rule 13a-14(a) or Rule 15d-14(a).
32.1	Certification of Bruno Guilmart, Chief Executive Officer of Kulicke and Soffa Industries, Inc., pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Jonathan Chou, Chief Financial Officer of Kulicke and Soffa Industries, Inc., pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document.
101.SCH	XBRL Taxonomy Extension Schema Document.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.

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SIGNATURES

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

KULICKE AND SOFFA INDUSTRIES, INC.

Date: July 30, 2014

By: /s/ JONATHAN CHOU
Jonathan Chou
Senior Vice President and Chief Financial Officer

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