KULICKE & SOFFA INDUSTRIES INC
Form 10-Q
February 09, 2011

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

FORM 10-Q

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

For the quarterly period ended January 1, 2011

OR

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

For the transition period from ______ to ______ .

Commission File No. 0-121

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

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

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

(215) 784-6000
(Registrant's telephone number, including area code)

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

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

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

(Do not check if a smaller
reporting
company)

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

As of February 2, 2011, there were 71,406,866 shares of the Registrant's Common Stock, no par value, outstanding.

KULICKE AND SOFFA INDUSTRIES, INC.

FORM 10 – Q

January 1, 2011

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PART I. - FINANCIAL INFORMATION
Item 1. – Financial Statements

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

	As of	
	January 1, 2011	October 2, 2010
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 197,551	$ 178,112
Restricted cash	-	237
Short-term investments	6,074	2,985
Accounts and notes receivable, net of allowance for doubtful		
accounts of $1,261 and $980, respectively	161,045	196,035
Inventories, net	74,661	73,893
Prepaid expenses and other current assets	13,224	15,985
Deferred income taxes	5,445	5,443
TOTAL CURRENT ASSETS	458,000	472,690
Property, plant and equipment, net	30,766	30,059
Goodwill	26,698	26,698
Intangible assets	36,726	39,111
Other assets	11,641	11,611
TOTAL ASSETS	$ 563,831	$ 580,169
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Current portion of long-term debt	$ -	$ -
Accounts payable	41,567	82,353
Accrued expenses and other current liabilities	40,781	41,498
Income taxes payable	3,904	1,279
TOTAL CURRENT LIABILITIES	86,252	125,130
Long-term debt	100,110	98,475
Deferred income taxes	20,896	20,355
Other liabilities	14,657	13,729
TOTAL LIABILITIES	221,915	257,689
Commitments and contingent liabilities (Note 10)		
SHAREHOLDERS' EQUITY:		
Preferred stock; without par value:		
Authorized - 5,000 shares; issued - none	-	-
Common stock, no par value:		
	427,397	423,715

Authorized 200,000 shares; issued 75,972 and 75,429, respectively; Outstanding 71,018 and 70,475 shares, respectively				
Treasury stock, at cost, 4,954 shares		(46,356)		(46,356)
Accumulated deficit		(40,571)		(55,670)
Accumulated other comprehensive income		1,446		791
TOTAL SHAREHOLDERS' EQUITY		341,916		322,480
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$	563,831	$	580,169

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

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

	Three Months Ended	
	January 1, 2011	January 2, 2010
Net revenue	$ 148,863	$ 128,415
Cost of sales	76,751	72,042
Gross profit	72,112	56,373
Selling, general and administrative	34,850	25,226
Research and development	15,195	13,161
Operating expenses	50,045	38,387
Income from operations	22,067	17,986
Interest income	105	97
Interest expense	(2,014)	(2,083)
Income from operations before income taxes	20,158	16,000
Provision for income taxes	5,059	160
Net income	$ 15,099	$ 15,840
Net income per share:		
Basic	$ 0.21	$ 0.23
Diluted	$ 0.21	$ 0.21
Weighted average shares outstanding:		
Basic	70,881	69,684
Diluted	71,706	73,687

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

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

	Three months ended	
	January 1, 2011	January 2, 2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 15,099	$ 15,840
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	4,407	4,509
Amortization of debt discount and debt issuance costs	1,772	1,712
Equity-based compensation and employee benefits	1,566	1,393
Provision for doubtful accounts	282	(99)
Provision for inventory valuation	1,325	95
Deferred taxes	2,425	111
Changes in operating assets and liabilities, net of businesses acquired or sold:		
Accounts and notes receivable	34,120	9,864
Inventory	(2,232)	(8,370)
Prepaid expenses and other current assets	2,707	(1,976)
Accounts payable, accrued expenses and other current liabilities	(40,749)	12,574
Income taxes payable	2,636	(270)
Other, net	1,952	(1,258)
Net cash provided by continuing operations	25,310	34,125
Net cash used in discontinued operations	(524)	(496)
Net cash provided by operating activities	24,786	33,629
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property, plant and equipment	(2,705)	(1,096)
Purchases of investments classified as available-for-sale	(3,180)	-
Changes in restricted cash, net	237	65
Net cash used in continuing operations	(5,648)	(1,031)
Net cash used in discontinued operations	-	(1,838)
Net cash used in investing activities	(5,648)	(2,869)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from exercise of common stock options	125	6
Net costs from sale of common stock	-	(29)
Net cash provided by (used in) financing activities	125	(23)
Effect of exchange rate changes on cash and cash equivalents	176	(90)
Changes in cash and cash equivalents	19,439	30,647
Cash and cash equivalents at beginning of period	178,112	144,560
Cash and cash equivalents at end of period	$ 197,551	$ 175,207
CASH PAID FOR:		
Interest	$ 481	$ 726
Income taxes	$ 634	$ 755

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

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

NOTE 1: BASIS OF PRESENTATION

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

The interim consolidated financial statements are unaudited and, in management's opinion, include all adjustments (consisting only of normal and recurring adjustments) necessary for a fair presentation of results for these interim periods. The interim consolidated financial statements do not include all of the information and footnote disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles ("GAAP") and should be read in conjunction with the consolidated financial statements and notes thereto included in the Annual Report on Form 10-K for the year ended October 2, 2010, filed with the Securities and Exchange Commission, which includes Consolidated Balance Sheets as of October 2, 2010 and October 3, 2009, and the related Consolidated Statements of Operations, Cash Flows, and Changes in Shareholders' Equity for each of the years in the three-year period ended October 2, 2010. The results of operations for any interim period are not necessarily indicative of the results of operations for any other interim period or for a full year.

Each of the Company's first three fiscal quarters end on the Saturday that is 13 weeks after the end of the immediately preceding fiscal quarter. The fourth quarter of each fiscal year ends on the Saturday closest to September 30th. The fiscal 2011 quarters end on January 1, 2011, April 2, 2011, July 2, 2011 and October 1, 2011. The fiscal 2010 quarters ended on January 2, 2010, April 3, 2010, July 3, 2010 and October 2, 2010. In fiscal years consisting of 53 weeks, the fourth quarter will consist of 14 weeks.

Nature of Business

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

Use of Estimates

The preparation of the interim consolidated financial statements requires management to make assumptions, estimates and judgments that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities as of the date of the interim consolidated financial statements, and the reported amounts of revenue and expenses during the reporting periods. On an ongoing basis, management evaluates these estimates. Authoritative pronouncements, historical experience and assumptions are used as the basis for making estimates. Actual results could differ from those estimates.

Vulnerability to Certain Concentrations

Financial instruments which may subject the Company to concentrations of credit risk as of January 1, 2011 and October 2, 2010 consisted primarily of short-term investments and trade receivables. The Company manages credit risk associated with investments by investing its excess cash in highly rated debt instruments of the U.S. Government and its agencies, financial institutions, and corporations. The Company has established investment guidelines relative to diversification and maturities designed to maintain safety and liquidity. These guidelines are periodically reviewed and modified as appropriate. The Company does not have any exposure to sub-prime financial instruments or auction rate securities.

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

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

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

Foreign Currency Translation

The majority of the Company’s business is transacted in U.S. dollars; however, the functional currencies of some of the Company’s subsidiaries are their local currencies. In accordance with Accounting Standards Codification (“ASC”) No. 830, Foreign Currency Matters (“ASC 830”), for a subsidiary of the Company that has a functional currency other than the U.S. dollar, gains and losses resulting from the translation of the functional currency into U.S. dollars for financial statement presentation are not included in determining net income (loss), 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 (loss).

Allowance for Doubtful Accounts

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

Inventories

Inventories are stated at the lower of cost (on a first-in first-out basis) or market value. The Company generally provides reserves for obsolete inventory and for inventory considered to be in excess of demand. In addition, the Company generally records as accrued expense inventory purchase commitments in excess of demand. Demand is generally defined as eighteen months future consumption for non-Wedge bonder equipment, twenty-four months consumption for Wedge bonder equipment and all spare parts, and twelve months consumption for expendable tools. The forecasted demand is based upon internal projections, historical sales volumes, customer order activity and a

review of consumable inventory levels at customers' facilities. The Company communicates forecasts of its future demand to its suppliers and adjusts commitments to those suppliers accordingly. If required, the Company reserves the difference between the carrying value of its inventory and the lower of cost or market value, based upon assumptions about future demand, and market conditions. If actual market conditions are less favorable than projections, additional inventory reserves may be required.

Revenue Recognition

In accordance with ASC No. 605, Revenue Recognition, the Company recognizes revenue when persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, the price is fixed or determinable, the collectibility is reasonably assured, and equipment installation obligations have been completed and customer acceptance, when applicable, has been received or otherwise released from installation or customer acceptance obligations. In the event 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 are included in cost of sales.

Income Taxes

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

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

NOTE 2: RESTRUCTURING

During fiscal 2010, the Company committed to a plan to reduce its Irvine, California workforce by approximately 60 employees over a period of approximately 26 months. As part of this workforce reduction plan, substantially all of the Company's California-based wedge bonder manufacturing, as well as certain administrative functions, will be transferred to the Company's manufacturing facilities in Kuala Lumpur, Malaysia and Singapore. Management determined that it was in the best interests of the Company to migrate production and certain administrative functions from California to Asia. With respect to the California-based wedge bonder transfer to Asia, the Company anticipates $0.6 million of additional pre-tax expense, which will consist of $0.4 million of severance and $0.2 million of retention costs. The Company expects substantially all of this expense to be incurred by the end of the second quarter of fiscal 2011, with corresponding cash payments to be incurred from the second quarter of fiscal 2011 until the end of fiscal 2012.

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In addition to the California-based transition to Asia, the Company is consolidating certain of its other U.S.-based operations to Asia.

The following table reflects severance activity, for both the California-based transition and the other U.S.-based operations move to Asia, during the three months ended January 1, 2011 and January 2, 2010:

(in thousands)	For the three months ended January 1, 2011		For the three months ended January 2, 2010	
Accrual for estimated severance and benefits, beginning of period	$	2,395	$	2,413
Provision for estimated severance and benefits: Equipment segment (1)		1,144		-
Provision for estimated severance and benefits: Expendable Tools segment (1)		324		199
Payment of severance and benefits		(390)		(419)
Accrual for estimated severance and benefits, end of period (2)	$	3,473	$	2,193

(1) Provision for severance and benefits is the total amount incurred and is included within selling, general and administrative expenses on the Consolidated Statements of Operations.
(2) The accrual for estimated severance as of January 1, 2011 was included within accrued expenses and other current liabilities and other liabilities on the Consolidated Balance Sheet. The accrual for estimated severance as of January 2, 2010 was included within accrued expenses and other current liabilities on the Consolidated Balance Sheet. In addition to these restructuring amounts, as of January 1, 2011, the Company has other non-restructuring severance obligations included within accrued expenses and other current liabilities and other liabilities on the Consolidated Balance Sheets.

NOTE 3: BALANCE SHEET COMPONENTS

The following tables reflect the components of significant balance sheet accounts as of January 1, 2011 and October 2, 2010:

(in thousands)	As of January 1, 2011	As of October 2, 2010
Short term investments, available for sale:		
Deposits maturing within one year (1)	$ 6,074	$ 2,985
	6,074	2,985
Inventories, net:		
Raw materials and supplies	$ 43,821	$ 41,693
Work in process	27,444	26,682
Finished goods	14,358	15,658
	85,623	84,033
Inventory reserves	(10,962)	(10,140)
	$ 74,661	$ 73,893
Property, plant and equipment, net:		
Land	$ 2,086	$ 2,086
Buildings and building improvements	11,601	11,601
Leasehold improvements	10,229	9,966
Data processing equipment and software	23,001	22,280
Machinery, equipment, furniture and fixtures	38,833	37,007
	85,750	82,940
Accumulated depreciation	(54,984)	(52,881)
	$ 30,766	$ 30,059
Accrued expenses and other current liabilities:		
Wages and benefits	$ 15,036	$ 15,836
Accrued customer obligations (2)	9,452	8,918
Commissions and professional fees (3)	5,410	6,639
Severance (4)	3,093	2,947
Short-term facility accrual related to discontinued operations (Test)	1,661	1,734
Other	6,129	5,424
	$ 40,781	$ 41,498

(1) All short-term investments were classified as available for sale and were measured at fair value based on level one measurement, or quoted market prices, as defined by ASC 820. As of January 1, 2011 and October 2, 2010, fair value approximated the cost basis for short-term investments. The Company did not recognize any realized gains or losses on the sale of investments during the three months ended January 1, 2011 and January 2, 2010.
(2) Represents customer advance payments, customer credit program, accrued warranty expense and accrued retrofit costs.
(3) Balances as of January 1, 2011 and October 2, 2010 include $0.8 million and $0.9 million, respectively, of liability classified stock compensation expenses in connection with the September 2010 retirement of the Company's former Chief Executive Officer ("CEO"). In addition, balances for both periods include $0.3 million related to his three year consulting arrangement. An additional $0.3 million and $0.2 million of liability classified stock compensation

expenses was recorded in other liabilities related to the long term portion of his agreement (see Note 6) as of January 1, 2011 and October 2, 2010, respectively. In addition, $0.5 million and $0.6 million were recorded within other liabilities related to the long term portion of his consulting agreement as of January 1, 2011 and October 2, 2010, respectively.

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

NOTE 4: GOODWILL AND INTANGIBLE ASSETS

Goodwill

Intangible assets classified as goodwill are not amortized. The Company performs an annual impairment test of its goodwill during the fourth quarter of each fiscal year, which coincides with the completion of its annual forecasting process. The Company performed its annual impairment test in the fourth quarter of fiscal 2010 and no impairment charge was required.

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

On October 3, 2008, the Company completed the acquisition of Orthodyne Electronics Corporation ("Orthodyne") and agreed to pay Orthodyne an additional amount in the future based upon the gross profit realized by the acquired business over a three year period from date of acquisition pursuant to an Earnout Agreement (the "Earnout"). As of January 1, 2011, the maximum potential payout under the Earnout could be $20.0 million; however, as of January 1, 2011, no Earnout was accrued or recorded as an adjustment to goodwill.

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 January 1, 2011and October 2, 2010:

(dollar amounts in thousands)	As of January 1, 2011	As of October 2, 2010	Average estimated useful lives (in years)
Wedge bonder developed technology	$ 33,200	$ 33,200	7.0
Accumulated amortization	(10,670)	(9,486)	
Net wedge bonder developed technology	22,530	23,714	
Wedge bonder customer relationships	19,300	19,300	5.0
Accumulated amortization	(8,685)	(7,720)	
Net wedge bonder customer relationships	10,615	11,580	
Wedge bonder trade name	4,600	4,600	8.0
Accumulated amortization	(1,294)	(1,150)	
Net wedge bonder trade name	3,306	3,450	
Wedge bonder other intangible assets	2,500	2,500	1.9
Accumulated amortization	(2,225)	(2,133)	
Net wedge bonder other intangible assets	275	367	
Net intangible assets	$ 36,726	$ 39,111	

The following table reflects estimated annual amortization expense related to intangible assets as of January 1, 2011:

(in thousands)		
Remaining fiscal 2011	$	7,159
Fiscal 2012		9,178
Fiscal 2013		9,178
Fiscal 2014		5,318
Fiscal 2015-2016		5,893
Total amortization expense	$	36,726

NOTE 5: DEBT AND OTHER OBLIGATIONS

The following table reflects debt consisting of Convertible Subordinated Notes as of January 1, 2011 and October 2, 2010:

					(in thousands) As of			
Rate	Payment date of each year	Conversion price		Maturity date	January 1, 2011		October 2, 2010	
0.875 %	June 1 and December 1	$	14.36	June 1, 2012	$	110,000	$	110,000
Debt discount on 0.875% Convertible Subordinated Notes due June 2012						(9,890)		(11,525)
					$	100,110	$	98,475

The following table reflects the estimated fair value of the Company's Convertible Subordinated Notes as of January 1, 2011 and October 2, 2010:

	(in thousands) Fair value as of (1)			
Description	January 1, 2011		October 2, 2010	
0.875% Convertible Subordinated Notes	$	106,843	$	102,025

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

The following table reflects amortization expense related to issue costs from the Company's Convertible Subordinated Notes for the three months ended January 1, 2011 and January 2, 2010:

	Three Months Ended			
(in thousands)	January 1, 2011		January 2, 2010	
Amortization expense related to issue costs	$	138	$	196

0.875% Convertible Subordinated Notes

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

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

The Company adopted ASC 470.20, which requires that issuers of convertible debt that may be settled in cash upon conversion record the liability and equity components of the convertible debt separately. The liability component of the Company's 0.875% Convertible Subordinated Notes will continue to be classified as long-term debt and the equity component of the 0.875% Convertible Subordinated Notes is classified as common stock on the Company's Consolidated Balance Sheets.

Credit Facility

On September 29, 2010, Kulicke and Soffa Global Holding Corporation ("GHC"), the Company's wholly-owned subsidiary, entered into a Short Term Credit Facilities Agreement (the "Facilities Agreement") with DBS Bank Ltd. Labuan Branch ("DBS Bank"). In accordance with the Facilities Agreement, DBS Bank has agreed to make available to GHC the following banking facilities:

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

The STL Facility is an uncommitted facility, and therefore, cancellable by DBS Bank at any time in its sole discretion. Borrowings under the STL Facility bear interest at the Singapore Interbank Offered Rate ("SIBOR") plus 1.5%. The RC Facility is a committed facility and is available to GHC until September 10, 2013, the maturity date. Borrowings under the RC Facility bear interest at SIBOR plus 2.5%. The Facilities Agreement has been entered into in order to provide support, if needed, to fund GHC's working capital requirements. The Company did not have any borrowings under the Facilities Agreement as of or during the three months ended January 1, 2011 or October 2, 2010.

NOTE 6: SHAREHOLDERS' EQUITY AND EMPLOYEE BENEFIT PLANS

Common Stock

The Company has a 401(k) retirement income plan (the "Plan") for its employees. The Company's matching contributions to the Plan are made in the form of issued and contributed shares of Company common stock. The Plan allows for employee contributions and matching Company contributions up to 4% or 6% of the employee's contributed amount based upon years of service. Beginning January 2, 2011, matching contributions to the Plan will be made in cash rather than shares of the Company's common stock.

The following table reflects the Company's matching contributions to the Plan which were made in the form of issued and contributed shares of Company common stock for the three months ended January 1, 2011 and January 2, 2010:

	Three Months Ended	
(in thousands)	January 1, 2011	January 2, 2010
Number of common shares	42	50
Fair value based upon market price at date of distribution	$ 279	$ 290

Accumulated Other Comprehensive Income

The following table reflects accumulated other comprehensive income reflected on the Consolidated Balance Sheets as of January 1, 2011 and October 2, 2010:

	As of	
(in thousands)	January 1, 2011	October 2, 2010
Gain from foreign currency translation adjustments	$ 2,464	$ 1,767
Unrecognized actuarial net loss, Switzerland pension plan, net of tax	(630)	(588)
Switzerland pension plan curtailment	(388)	(388)
Accumulated other comprehensive income	$ 1,446	$ 791

The following table reflects the components of comprehensive income (loss) for the three months ended January 1, 2011 and January 2, 2010:

	Three Months Ended	
(in thousands)	January 1, 2011	January 2, 2010
Net income	$ 15,099	$ 15,840
Gain (loss) from foreign currency translation adjustments	697	(653)
Unrecognized actuarial net gain (loss), Switzerland pension plan, net of tax	(42)	38
Other comprehensive income (loss)	$ 655	$ (615)
Comprehensive income	$ 15,754	$ 15,225

Equity-Based Compensation

As of January 1, 2011, the Company had nine equity-based employee compensation plans (the "Employee Plan") and three director compensation plans (the "Director Plans") (collectively, the "Plans"). Under these Plans, stock options, performance-based share awards (collectively, "performance-based restricted stock"), time-based share awards (collectively, "time-based restricted stock"), market-based share awards (collectively, "market-based restricted stock") or common stock have been granted at 100% of the market price of the Company's common stock on the date of grant. As of January 1, 2011, the Company's one active plan, the 2009 Equity Plan, had 6.1 million shares of common stock available for grant to its employees and directors.

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

- Performance-based restricted stock entitles the employee to receive common shares of the Company on the three-year anniversary of the grant date (if employed by the Company) if return on invested capital and revenue growth targets set by the Management Development and Compensation Committee of the Board of Directors on the date of grant are met. If return on invested capital and revenue growth targets are not met, performance-based restricted stock does not vest.

- 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 forfeits prior to the vesting date.

Equity-based compensation expense recognized in the Consolidated Statements of Operations for the three months ended January 1, 2011 and January 2, 2010 was based upon awards ultimately expected to vest. In accordance with ASC 718, forfeitures have been estimated at the time of grant and were based upon historical experience. The Company reviews the forfeiture rates periodically and makes adjustments as necessary.

The Company did not grant any performance-based restricted stock or stock options during the three months ended January 1, 2011 or January 2, 2010. The following table reflects stock options, restricted stock and common stock granted during the three months ended January 1, 2011 and January 2, 2010:

	Three months ended	
(number of shares, in thousands)	January 1, 2011	January 2, 2010
Market-based restricted stock	349	398
Time-based restricted stock	616	784
Common stock	29	32
Equity-based compensation in shares	994	1,214

The following table reflects equity-based compensation expense, which includes restricted stock, stock options and common stock, for the three months ended January 1, 2011 and January 2, 2010:

	Three Months Ended			
(in thousands)	January 1, 2011		January 2, 2010	
Cost of sales	$	48	$	46
Selling, general and administrative (1)		963		714
Research and development		276		344
Equity-based compensation expense	$	1,287	$	1,104

The following table reflects equity-based compensation expense, by type of award, for the three months ended January 1, 2011 and January 2, 2010:

	Three Months Ended			
(in thousands)	January 1, 2011		January 2, 2010	
Market-based restricted stock (1)	$	2	$	115
Time-based restricted stock		999		56
Performance-based restricted stock (1)		71		590
Stock options		35		163
Common stock		180		180
Equity-based compensation expense	$	1,287	$	1,104

(1) Fiscal 2011 selling, general and administrative expense includes a credit of $0.1 million related to the liability classified stock compensation expense for the retired former Chief Executive Officer. In connection with his retirement, deferred cash payments equal to the difference, if any, between (i) the fair market value of the shares of common stock of the Company to which he would have been entitled pursuant to the performance share unit awards granted to him in fiscal 2008 and 2009 had he remained employed through June 30, 2011 and (ii) the fair market value of the shares of common stock of the Company actually received by him pursuant to such awards. The deferred cash payments, if any, will be paid in July 2011 and February 2012, respectively. An accrual for estimated deferred cash payments measured at fair value as of January 1, 2011 and October 2, 2010 was included within accrued expenses and other current liabilities and other liabilities on the Consolidated Balance Sheets.

NOTE 7: EARNINGS PER SHARE

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

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

The Company’s 0.875% Convertible Subordinated Notes would not result in the issuance of any dilutive shares, since the Notes were not convertible and the conversion option was not “in the money” as of January 1, 2011 and January 2, 2010. Accordingly, diluted EPS excludes the effect of the conversion of the 0.875% Convertible Subordinated Notes.

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The following table reflects a reconciliation of the shares used in the basic and diluted net income per share computation:

	Three months ended			
(in thousands, except per share)	January 1, 2011 Basic	January 1, 2011 Diluted	January 2, 2010 Basic	January 2, 2010 Diluted
NUMERATOR:				
Net income	$ 15,099	$ 15,099	$ 15,840	$ 15,840
Less: Income applicable to participating securities	(96)	(96)	(172)	(172)
After-tax interest expense	-	n/a	-	122
Net income applicable to common shareholders	$ 15,003	$ 15,003	$ 15,668	$ 15,790
DENOMINATOR:				
Weighted average shares outstanding - Basic	70,881	70,881	69,684	69,684
Stock options		107		149
Time-based restricted stock		401		41
Market-based restricted stock		172		-
Performance-based restricted stock		145		-
1.00 % Convertible Subordinated Notes		-		3,813
Weighted average shares outstanding - Diluted (1)		71,706		73,687
EPS:				
Net income per share - Basic	$ 0.21	$ 0.21	$ 0.23	$ 0.23
Effect of dilutive shares		-		$ (0.02)
Net income per share - Diluted		$ 0.21		$ 0.21

(1) Excludes 298 dilutive participating securities as the income attributable to these shares was not included in EPS.

For the three months ended January 1, 2011 and January 2, 2010, 1.6 million and 4.4 million potentially dilutive shares related to out of the money stock options were excluded from EPS.

NOTE 8: INCOME TAXES

The following table reflects the total provision for income taxes and the effective tax rate for the three months ended January 1, 2011 and January 2, 2010:

	Three months ended	
(in thousands)	January 1, 2011	January 2, 2010
Income from operations before taxes	$ 20,158	$ 16,000
Provision for income taxes	5,059	160
Net income	$ 15,099	$ 15,840
Effective tax rate	25.1%	1.0%

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

For the three months ended January 2, 2010, the effective income tax rate differed from the federal statutory rate primarily due to decreases in the valuation allowance, federal alternative minimum taxes, state income taxes, tax from foreign operations, the impact of tax holidays, an increase in deferred taxes for un-remitted earnings and other U.S. current and deferred taxes.

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.

In addition, the Company is currently in negotiations with a foreign tax jurisdiction which could result in a decreased effective tax rate in that jurisdiction for a limited period of time. Any impact on current or deferred taxes as a result of these negotiations will be reflected in the quarter in which these negotiations are finalized and could result in future decrease to the Company's overall effective tax rate.

NOTE 9: SEGMENT INFORMATION

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

The following table reflects operating information by segment for the three months ended January 1, 2011 and January 2, 2010:

	Three Months Ended	
(in thousands)	January 1, 2011	January 2, 2010
Net revenue:		
Equipment	$ 132,698	$ 111,597
Expendable Tools	16,165	16,818
Net revenue	148,863	128,415
Cost of sales :		
Equipment	70,238	65,145
Expendable Tools	6,513	6,897
Cost of sales	76,751	72,042
Gross profit :		
Equipment	62,460	46,452
Expendable Tools	9,652	9,921
Gross profit	72,112	56,373
Operating expenses:		
Equipment	43,276	31,605
Expendable Tools	6,769	6,782
Operating expenses	50,045	38,387
Income from operations		
Equipment	19,184	14,847
Expendable Tools	2,883	3,139
	$ 22,067	$ 17,986

The following tables reflect assets by segment as of January 1, 2011 and October 2, 2010, and capital expenditures and depreciation expense for the three months ended January 1, 2011 and January 2, 2010:

	As Of	
(in thousands)	January 1, 2011	October 2, 2010
Segment assets:		
Equipment	$ 490,045	$ 493,712
Expendable Tools	73,786	86,457
Segment assets	$ 563,831	$ 580,169

	Three Months Ended	
(in thousands)	January 1, 2011	January 2, 2010
Capital expenditures:		
Equipment	$ 1,487	$ 475
Expendable Tools	1,218	621
Capital expenditures	$ 2,705	$ 1,096
Depreciation expense		
Equipment	$ 1,522	$ 1,398
Expendable Tools	499	727
Depreciation expense	$ 2,021	$ 2,125

NOTE 10: COMMITMENTS, CONTINGENCIES AND CONCENTRATIONS

Warranty Expense

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

The following table reflects the reserve for product warranty activity for the three months ended January 1, 2011 and January 2, 2010:

(in thousands)	Three months ended January 1, 2011		Three months ended January 2, 2010	
Reserve for product warranty, beginning of period	$	2,657	$	1,003
Provision for product warranty		408		791
Product warranty costs paid		(829)		(401)
Reserve for product warranty, end of period	$	2,236	$	1,393

Orthodyne Earnout

As of January 1, 2011, the maximum potential payout under the Earnout could be $20.0 million; however, the Company estimated that its maximum exposure would not exceed $9.2 million. As of January 1, 2011, no Earnout was accrued or recorded as an adjustment to goodwill on the Consolidated Balance Sheet.

Other Commitments and Contingencies

The following table reflects operating lease obligations not reflected on the Consolidated Balance Sheet as of January 1, 2011:

			Payments due by fiscal year									
(in thousands)		Total		2011		2012		2013		2014		2015 and thereafter
Operating lease obligations (1)	$	32,735	$	6,612	$	6,968	$	5,386	$	2,771	$	10,998

(1) 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).

Concentrations

The following table reflects significant customer concentrations for the three months ended January 1, 2011 and January 2, 2010:

	Three months ended	
	January 1, 2011	Janaury 2, 2010
Customer net revenue as a percentage of Net Revenue		
Advanced Semiconductor Engineering	*	34.5%
Customer accounts receivable as a percentage of Total Accounts Receivable		
Haoseng Industrial Company Limited	11.4%	12.6%
Siliconware Precision Industries Co. Limited	10.4%	*
Advanced Semiconductor Engineering	*	22.9%

* Represents less than 10% of net revenue or total accounts receivable, as applicable.

NOTE 11: RELATED PARTY TRANSACTIONS

In connection with the Company's acquisition of its wedge bonder division, Orthodyne Electronics Corporation, on October 3, 2008, the Company entered into a real property lease agreement with OE Holdings, Inc. Jason Livingston was the Vice President of the Company's wedge bonder division until his resignation in October 2010 and is also a shareholder of OE Holdings, Inc. The lease agreement dated as of October 3, 2008 has a five-year term with a five-year renewal option. Rent was $124,369 per month in the first year and increases 3.0% per year thereafter. If the lease agreement renewal is exercised, rent during the renewal term will be at fair market value. The Company is guaranteeing the obligations of its subsidiary under the lease agreement.

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

Forward-Looking Statements

In addition to historical information, this filing contains statements relating to future events or our future results. These statements are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the “Securities Act”) and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), and are subject to the safe harbor provisions created by statute. Such forward-looking statements include, but are not limited to, statements that relate to increasing, continuing or strengthening demand for our products, and our future revenue and operational flexibility as a result of (among other factors):

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

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

Forward-looking statements are based on current expectations and involve risks and uncertainties. Our future results could differ significantly from those expressed or implied by our forward-looking statements. These risks and uncertainties include, without limitation, those described below and under the heading “Risk Factors” in this Annual Report on Form 10-K for the fiscal year ended October 2, 2010 and our other reports and registration statements filed from time to time with the Securities and Exchange Commission. This discussion should be read in conjunction with the Consolidated Financial Statements and Notes included in this report, as well as our audited financial statements included in the Annual Report.

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

OVERVIEW

Introduction

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

We operate two main business segments, Equipment and Expendable Tools. Our goal is to be the technology leader and the lowest cost supplier in each of our major product lines. Accordingly, we invest in research and engineering

projects intended to enhance our position at the leading edge of semiconductor assembly technology. We also remain focused on our cost structure, through consolidating operations, moving manufacturing to Asia, moving our supply chain to lower cost suppliers and designing higher performing, lower cost equipment. Cost reduction efforts are an important part of our normal ongoing operations, and are expected to generate savings without compromising overall product quality and service levels.

Business Environment

The semiconductor business environment is highly volatile, driven by both internal cyclical dynamics as well as macroeconomic forces. Over the long term, semiconductor consumption has historically grown, and is forecast to continue to grow. This growth is driven, in part, by regular advances in device performance and by price declines that result from improvements in manufacturing technology. In order to exploit these trends, semiconductor manufacturers, both integrated device manufacturers ("IDMs") and OSATs, periodically aggressively invest in latest generation capital equipment. This buying pattern often leads to periods of excess supply and reduced capital spending — the so called semiconductor cycle. Macroeconomic factors also affect the industry, primarily through their effect on business and consumer demand for electronic devices, as well as other products that have significant electronic content such as automobiles, white goods, and telecommunication equipment.

Our Equipment segment reflects the industry's cyclical dynamics and is therefore also highly volatile. The financial performance of this segment is affected, both positively and negatively, by semiconductor manufacturers' expectations of capacity requirements and their plans for upgrading their production capabilities. Volatility of this segment is further influenced by the relative mix of IDM and OSAT customers in any period, since changes in the mix of sales to IDMs and OSATs can affect our products' average selling prices and gross margins due to differences in volume purchases and machine configurations required by each type of customer.

Our Expendable Tools segment is less volatile than our Equipment segment, since sales of expendable tools are directly tied to semiconductor unit consumption rather than their expected growth rate.

Though the semiconductor industry's cycle can be independent of the general economy, global economic conditions may have a direct impact on demand for semiconductor units and ultimately demand for semiconductor capital equipment and expendable tools. Business conditions in the semiconductor industry improved significantly during fiscal 2010 after a dramatic deterioration in the global economy and a corresponding reduction in semiconductor production activity during fiscal 2009. Although net revenue in the first quarter of fiscal 2011 was sequentially lower than the fourth quarter of fiscal 2010, net revenue was higher than we expected. We anticipate demand to be stronger during the second quarter of fiscal 2011 as compared to the first quarter of fiscal 2011. Our visibility into future demand beyond that is generally limited and forecasting is difficult. There can be no assurances regarding levels of demand for our products and we believe historic industry-wide volatility will persist.

To mitigate possible negative effects of this industry-wide volatility on our financial position, we have de-leveraged and strengthened our balance sheet. During fiscal 2010, we reduced our debt by $49.0 million, and as of January 1, 2011, our total cash, cash equivalents and investments exceeded the face value of our total debt by $93.6 million, a $22.3 million increase from our fiscal year end. We believe a strong cash position allows us to continue making longer term investments in product development and in cost reduction activities throughout the semiconductor cycle.

Technology Leadership

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

users, and other industry members. In addition to producing technical advances, these collaborative development efforts strengthen customer relationships and enhance our reputation as a technology leader and solutions provider.

K&S's leadership in the industries' use of copper wire, instead of gold, for the wire bonding process is an example of the benefits of collaborative efforts. By working with customers, material suppliers, and suppliers of equipment used around the wire bonding process, we have developed a series of robust, high yielding production processes that have made copper wire commercially viable, significantly reducing the cost of assembling an integrated circuit. Many of our customers started large scale conversion of their output to copper wire in fiscal 2010. We expect this conversion process to continue throughout the industry for the next several years, potentially driving a significant wire bonder replacement cycle as we believe much of the industries' installed base is not suitable for copper bonding. Based on our industry leading copper bonding processes, we believe the market share for wire bonders configured for copper wire is much higher than our already leading market share for ball bonders in general.

We also maintain the technology leadership of our equipment by optimizing variants of our products to serve high growth markets. For example, over the last two years we have developed extensions of our main ball bonding platforms to address opportunities in LED assembly. We estimate the LED device market to be driven by the adoption of LED backlights for flat-screen displays as well as other LED applications in general lighting. In fiscal 2009, we launched two products optimized for these applications. These products represent our first product offerings specifically aimed at this high growth market, and since their introduction we have captured significant market share.

Another example of our developing equipment for high growth niche markets is our AT Premier. This machine utilizes a modified wire bonding process to mechanically place bumps on devices, while still in a wafer format, for variants of the flip chip assembly process. Typical applications include complimentary metal-oxide semiconductor ("CMOS") image sensors, surface acoustical wave ("SAW") filters and high brightness LEDs.

Our focus on technology leadership also extends to die bonding. We offer a new die bonding platform, our state of the art iStackPS die bonder for advanced stacked die applications. iStackPS offers best-in-class throughput and accuracy, and we believe iStackPS is positioned to lead the market for its targeted applications.

We bring the same technology focus to our expendable tools business, driving tool design and manufacturing technology to optimize the performance and process capability of the equipment in which our tools are used. For all our equipment products, expendable tools are an integral part of their process capability. We believe our unique ability to simultaneously develop both equipment and tools is one of the reasons for our technology leadership position.

Products and Services

We supply a range of bonding equipment and expendable tools. The following table reflects net revenue by business segment for the three months January 1, 2011 and January 2, 2010, respectively:

	Three months ended			
	January 1, 2011		January 2, 2010	
(dollar amounts in thousands)	Net Revenues	% of total net revenue	Net Revenues	% of total net revenue
Equipment	$ 132,698	89.1%	$ 111,597	86.9%
Expendable Tools	16,165	10.9%	16,818	13.1%
	$ 148,863	100.0%	$ 128,415	100.0%

Equipment Segment

We manufacture and sell a line of ball bonders, heavy wire wedge bonders, stud bumpers, and die bonders that are sold to semiconductor device manufacturers, OSATs, other electronics manufacturers and automotive electronics suppliers. Ball bonders are used to connect very fine wires, typically made of gold or copper, between the bond pads

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

Our principal Equipment segment products include:

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

(1) Power Series ("PS")

Ball Bonders

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

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

Heavy Wire Wedge Bonders

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

Our portfolio of wedge bonding products includes:

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

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

Die Bonders

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

Other Equipment Products and Services

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

Expendable Tools Segment

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

- Capillaries: expendable tools used in ball bonders. Made of ceramic, a capillary guides the wire during the ball bonding process. Its features help control the bonding process. We design and build capillaries suitable for a broad range of applications, including for use on our competitors’ equipment. In addition, our capillaries are used with both gold and copper wire.

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

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

RESULTS OF OPERATIONS

Results of Operations for fiscal 2011 and 2010

The following table reflects our income from operations for the three months ended January 1, 2011 and January 2, 2010:

	Three Months Ended			
(dollar amounts in thousands)	January 1, 2011	January 2, 2010	$ Change	% Change
Net revenue	$ 148,863	$ 128,415	$ 20,448	15.9%
Cost of sales	76,751	72,042	4,709	6.5%
Gross profit	72,112	56,373	15,739	27.9%
Selling, general and administrative	34,850	25,226	9,624	38.2%
Research and development	15,195	13,161	2,034	15.5%
Operating expenses	50,045	38,387	11,658	30.4%
Income from operations	$ 22,067	$ 17,986	$ 4,081	22.7%

Net Revenue

Approximately 97.0% and 97.4% of our net revenue for the three months ended January 1, 2011 and January 2, 2010, respectively, was for shipments to customer locations outside of the United States, primarily in the Asia/Pacific region, and we expect sales outside of the United States to continue to represent a substantial majority of our future revenue.

The following table reflects net revenue by business segment for the three months ended January 1, 2011 and January 2, 2010:

	Three months ended			
(dollar amounts in thousands)	January 1, 2011	January 2, 2010	$ Change	% Change
Equipment	$ 132,698	$ 111,597	$ 21,101	18.9%
Expendable Tools	16,165	16,818	(653)	-3.9%
Total	$ 148,863	$ 128,415	$ 20,448	15.9%

Equipment

The following table reflects the components of Equipment net revenue change between the three months ended January 1, 2011 and January 2, 2010:

	January 1, 2011 vs. January 2, 2010		
(in thousands)	Price	Volume	$ Change
Equipment	$ 6,336	$ 14,765	$ 21,101

For the three months ended January 1, 2011, higher equipment net revenue as compared to the prior year period was due to a 202.2% unit volume increase for our wedge bonders partially offset by a 17.4% decline in ball bonder volume. The improvement in wedge bonder volume was due to significant demand for power management products. The favorable price change was due to customer mix within our ball bonder product lines.

Expendable Tools

We realized a slight decline in Expendable Tools net revenue during the three months ended January 1, 2011 as compared to the three months ended January 2, 2010. The decrease was primarily due lower volumes for our non-wedge bonder tools products.

Gross Profit

The following table reflects gross profit by business segment for the three months ended January 1, 2011 and January 2, 2010:

	Three months ended			
(dollar amounts in thousands)	January 1, 2011	January 2, 2010	$ Change	% Change
Equipment	$ 62,460	$ 46,452	$ 16,008	34.5%
Expendable Tools	9,652	9,921	(269)	-2.7%
Total	$ 72,112	$ 56,373	$ 15,739	27.9%

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

	Three months ended		Basis Point
	January 1, 2011	January 2, 2010	Change
Equipment	47.1%	41.6%	550
Expendable Tools	59.7%	59.0%	70
Total	48.4%	43.9%	450

Equipment

The following table reflects the components of Equipment gross profit change between the three months ended January 1, 2011 and January 2, 2010:

	January 1, 2011 vs. January 2, 2010			
(in thousands)	Price	Cost	Volume	Change
Equipment	$ 6,336	$ (213)	$ 9,885	$ 16,008

For the three months ended January 1, 2011, gross profit increased as compared to the prior year period mainly due to higher volume for wedge bonders and improved prices for ball bonders. The improvement in wedge bonder volume was due to significant demand for power management products. The favorable price change was due to customer mix within our ball bonder product lines.

Expendable Tools

We realized a small decline in Expendable Tools gross profit during the three months ended January 1, 2011 as compared to the three months ended January 2, 2010. This small decrease was primarily due lower volumes for our non-wedge bonder tools products.

Operating Expenses

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

	Three months ended		Basis point
	January 1, 2011	January 2, 2010	change
Selling, general & administrative	23.4%	19.6%	(380)
Research & development	10.2%	10.2%	-
Total	33.6%	29.8%	(380)

Selling, general and administrative (“SG&A”)

SG&A increased a net of $9.6 million during the three months ended January 1, 2011 as compared to the same period a year ago primarily due to the following:

- $3.2 million higher incentive compensation expense driven by the current fiscal quarter’s net income;
- $2.5 million increase in sales commissions due to higher net revenue for the current fiscal quarter;
- $1.6 million higher severance expense related the current quarter’s U.S.-based corporate transition to Singapore and the wedge bonder manufacturing transition from the U.S. to Asia;
- $1.0 million higher staffing costs to support our installed machine base and higher information technology consulting and related project costs during the current fiscal quarter, and;
- $0.8 million unfavorable foreign currency variance.

Research and development ("R&D")

R&D expenses increased $2.0 million during the three months ended January 1, 2011 as compared to the same period a year ago primarily due to $1.6 million of higher employee staffing costs attributed to additional headcount in our technology centers.

Income from Operations

The following table reflects income from operations for the three months ended January 1, 2011 and January 2, 2010:

	Three months ended			
(dollar amounts in thousands)	January 1, 2011	January 2, 2010	$ Change	% Change
Equipment	$ 19,184	$ 14,847	$ 4,337	29.2%
Expendable Tools	2,883	3,139	(256)	-8.2%
	$ 22,067	$ 17,986	$ 4,081	22.7%

Equipment

For the three months ended January 1, 2011, income from operations was higher as compared to the prior year period mainly due to higher volume for wedge bonders and improved prices for ball bonders. The improvement in wedge bonder volume was due to significant demand for power management products. The favorable price change was due to customer mix within our ball bonder product lines.

Expendable Tools

We realized a small decline in Expendable Tools income from operations during the three months ended January 1, 2011 as compared to the three months ended January 2, 2010. This small decrease was primarily due lower volumes for our non-wedge bonder tools products.

Interest Income and Expense

The following table reflects interest income and interest expense for the three months ended January 1, 2011 and January 2, 2010:

	Three months ended			
(dollar amounts in thousands)	January 1, 2011	January 2, 2010	$ Change	% Change
Interest income	$ 105	$ 97	$ 8	8.2%
Interest expense: cash	(242)	(371)	129	-34.8%
Interest expense: non-cash	(1,772)	(1,712)	(60)	3.5%

The increase in interest income from the first quarter of fiscal 2010 to the first quarter of fiscal 2011 was due to higher invested cash balances.

The decrease in interest for the first quarter of fiscal 2011 as compared to the prior year period was attributable to the retirement of our 1.0% Convertible Subordinated Notes in June 2010.

Provision for Income Taxes

The following table reflects the provision for income taxes and the effective tax rate for the three months ended January 1, 2011 and January 2, 2010:

	Three months ended	
(in thousands)	January 1, 2011	January 2, 2010
Income from operations before taxes	$ 20,158	$ 16,000
Provision for income taxes	5,059	160
Net income	$ 15,099	$ 15,840
Effective tax rate	25.1%	1.0%

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

For the three months ended January 2, 2010, the effective income tax rate differed from the federal statutory rate primarily due to decreases in the valuation allowance, Federal alternative minimum taxes, state income taxes, tax from foreign operations, the impact of tax holidays, an increase in deferred taxes for un-remitted earnings and other U.S. current and deferred taxes.

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

In addition, we are currently in negotiations with a foreign tax jurisdiction which could result in a decreased effective tax rate in that jurisdiction for a limited period of time. Any impact on current or deferred taxes as a result of these negotiations will be reflected in the quarter in which these negotiations are finalized and could result in future decrease to our overall effective tax rate.

LIQUIDITY AND CAPITAL RESOURCES

The following table reflects total cash and investments as of January 1, 2011 and October 2, 2010:

	As of		
(dollar amounts in thousands)	January 1, 2011	October 2, 2010	$ Change
Cash and cash equivalents	$ 197,551	$ 178,112	$ 19,439
Restricted cash (1)	-	237	(237)
Short-term investments	6,074	2,985	3,089
Total cash and cash equivalents	$ 203,625	$ 181,334	$ 22,291
Percentage of total assets	36.1%	31.3%	

(1) Related to customs requirements in Malaysia.

The following table reflects summary Consolidated Statement of Cash Flow information for the three months ended January 1, 2011 and January 2, 2010:

(in thousands)	Three months ended January 1, 2011		Three months ended January 2, 2010	
Net cash provided by continuing operations	$	25,310	$	34,125
Net cash used in discontinued operations		(524)		(496)
Net cash provided by operating activities	$	24,786	$	33,629
Net cash used in investing activities, continuing operations		(5,648)		(1,031)
Net cash used in investing activities, discontinued operations		-		(1,838)
Net cash used in investing activities	$	(5,648)	$	(2,869)
Net cash used in financing activities		125		(23)
Effect of exchange rate changes on cash and cash equivalents		176		(90)
Changes in cash and cash equivalents	$	19,439	$	30,647
Cash and cash equivalents, beginning of period		178,112		144,560
Cash and cash equivalents, end of period	$	197,551	$	175,207

Three months ended January 1, 2011

Continuing Operations

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

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

Discontinued Operations

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

Three months ended January 2, 2010

Continuing Operations

Net cash provided by operating activities was primarily the result of net income of $15.8 million plus non-cash adjustments of $7.7 million. In addition, net working capital provided $10.6 million, primarily driven by increases in accounts payable, accrued expenses, and other current liabilities, decreases in accounts receivable and increases in inventories.

Net cash used in investing activities was comprised of capital expenditures of $1.1 million.

Discontinued Operations

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

Net cash used in investing activities was the result of settlement of remaining liabilities, related to working capital adjustments in connection with the fiscal 2009 sale of our Wire business.

Fiscal 2011 Liquidity and Capital Resource Outlook

We expect our remaining fiscal 2011 capital expenditures to be $11.0 to $12.0 million. Expenditures are anticipated to be primarily used for R&D projects and the expansion of our manufacturing operations infrastructure in Asia.

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

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

Convertible Subordinated Notes

The following table reflects additional information regarding our Convertible Subordinated Notes as of January 1, 2011:

Description	Maturity Date	Par Value	Fair Value as of January 1, 2011 (1)
		(in thousands)	
0.875% Convertible Subordinated Notes (2)	June 1, 2012	$ 110,000	$ 106,843

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

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

Other Obligations and Contingent Payments

In accordance with U.S. generally accepted accounting principles, certain obligations and commitments are not required to be included in the Consolidated Balance Sheets and Statements of Operations. These obligations and commitments, while entered into in the normal course of business, may have a material impact on our liquidity. Certain of the following commitments as of January 1, 2011 are appropriately not included in the Consolidated Balance Sheets and Statements of Operations included in this Form 10-Q; however, they have been disclosed in the following table for additional information.

Other Obligations and Contingent Payments

The following table identifies obligations and contingent payments under various arrangements as of January 1, 2011:

		Payments due by fiscal period				
(in thousands)	Total	Less than 1 year	1 - 3 years	3 - 5 years	More than 5 years	Due date not determinable
Contractual Obligations:						
Convertible Subordinated Notes, par value (1)	$ 110,000		$ 110,000			
Current and long-term liabilities:						
Pension plan obligations	4,932					$ 4,932
Severance	6,393	$ 3,093	1,278			2,022
Facility accrual related to discontinued operations (Test)	2,547	1,661	886			
Obligations related to Chief Executive Officer transition (2)	2,869	2,075	794			
Operating lease retirement obligations	2,295	141	679	$ 644	$ 831	
Long-term income taxes payable	1,968					1,968
Total Obligations and Contingent Payments reflected on the Consolidated Financial Statements	$ 131,004	$ 6,970	$ 113,637	$ 644	$ 831	$ 8,922
Contractual Obligations:						
Inventory purchase obligations (3)	$ 82,978	$ 82,978				$ -
Operating lease obligations (4)	32,735	8,506	$ 11,178	$ 5,278	$ 7,773	
Cash paid for interest	1,445	482	963			
Total Obligations and Contingent Payments not reflected on the Consolidated Financial Statements	$ 117,158	$ 91,966	$ 12,141	$ 5,278	$ 7,773	$ -

(1) Does not reflect debt discount of $9.9 million related to our 0.875% Convertible Subordinated Notes.
(2) In connection with the September 2010 retirement of our former Chief Executive Officer ("CEO"), we entered into a three year consulting arrangement with him. Additionally in connection with his retirement, deferred cash payments equal to the difference, if any, between (i) the fair market value of our shares of common stock to which he would have been entitled pursuant to the performance share unit awards granted to him in fiscal 2008 and 2009 had he remained employed through June 30, 2011 and (ii) the fair market value of our shares of common stock actually received by him pursuant to such awards. The deferred cash payments, if any, will be paid in July 2011 and February 2012, respectively. In addition, in connection with the employment agreement for our recently hired CEO, we are obligated to pay certain bonus and relocation payments.

(3) We order inventory components in the normal course of our business. A portion of these orders are non-cancelable and a portion may have varying penalties and charges in the event of cancellation.
(4) We have minimum rental commitments under various leases (excluding taxes, insurance, maintenance and repairs, which are also paid by us) primarily for various facility and equipment leases, which expire periodically through 2018 (not including lease extension options, if applicable).

Credit Facility

On September 29, 2010, Kulicke and Soffa Global Holding Corporation (“GHC”), the Company’s wholly-owned subsidiary, entered into a Short Term Credit Facilities Agreement (the “Facilities Agreement”) with DBS Bank Ltd. Labuan Branch (“DBS Bank”). In accordance with the Facilities Agreement, DBS Bank has agreed to make available to GHC the following banking facilities:

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

The STL Facility is an uncommitted facility, and therefore, cancellable by DBS Bank at any time in its sole discretion. Borrowings under the STL Facility bear interest at the Singapore Interbank Offered Rate (“SIBOR”) plus 1.5%. The RC Facility is a committed facility and is available to GHC until September 10, 2013, the maturity date. Borrowings under the RC Facility bear interest at SIBOR plus 2.5%. The Facilities Agreement has been entered into in order to provide support, if needed, to fund GHC’s working capital requirements. We did not have any borrowings under the Facilities Agreement as of or during the three months ended January 1, 2011 or October 2, 2010.

Orthodyne Earnout

On October 3, 2008, we completed the acquisition of Orthodyne Electronics Corporation (“Orthodyne”) and agreed to pay Orthodyne an additional amount in the future based upon the gross profit realized by the acquired business over a three year period from date of acquisition pursuant to an Earnout Agreement (the “Earnout”). As of January 1, 2011, the maximum potential payout under the Earnout could be $20.0 million; however, as of January 1, 2011, no Earnout was accrued or recorded as an adjustment to goodwill.

Off-Balance Sheet Arrangements

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

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Interest Rate Risk

As of January 1, 2011, we held $6.1 million of available-for-sale investments which subject us to interest rate risk. Our available-for-sale securities consist of fixed income investments (such as corporate bonds, commercial paper, time deposits and U.S. Treasury and Agency securities, or mutual funds that invest in these instruments). We continually monitor our exposure to changes in interest rates and credit ratings of issuers with respect to any available-for-sale securities and target an average life to maturity of less than eighteen months. Accordingly, we believe that the effects to us of changes in interest rates and credit ratings of issuers are limited and would not have a material impact on our financial condition or results of operations.

Foreign Currency Risk

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

Based on our overall currency rate exposure as of January 1, 2011, a near term 10% appreciation or depreciation in the foreign currency portfolio to the U.S. dollar could impact on our financial position, results of operations or cash flows by $1.0 to $2.0 million. Our board of directors has granted management the authority to enter into foreign exchange forward contracts and other instruments designed to minimize the short term impact currency fluctuations have on our business. We may enter into foreign exchange forward contracts and other instruments in the future; however, our attempts to hedge against these risks may not be successful and may result in a material adverse impact on our financial results and cash flow.

Item 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of January 1, 2011. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that, as of January 1, 2011 our disclosure controls and procedures were effective in providing reasonable assurance the information required to be disclosed by us in reports filed under the Securities Exchange Act of 1934, as amended, is (i) recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission’s rules and forms and (ii) accumulated and communicated to our management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding disclosure.

PART II Other information

Item 1A. RISK FACTORS

CERTAIN RISKS RELATED TO OUR BUSINESS

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

Item 6. Exhibits

Exhibit No.	Description
10.1	Letter Agreement between the Company and Jason Livingston, dated October 18, 2010, incorporated by reference from Exhibit 10.1 to the Company’s Current Report on Form 8-K dated October 18, 2010.*
10.2	Offer Letter between the Company and Jonathan H. Chou, dated November 16, 2010, incorporated by reference from Exhibit 10.1 to the Company’s Current Report on Form 8-K dated November 16, 2010.*
10.3	Letter Agreement between the Company and Michael J. Morris, dated November 16, 2010, incorporated by reference from Exhibit 10.2 to the Company’s Current Report on Form 8-K dated November 16, 2010.*
10.4	Form of Officer Performance Share Award Agreement regarding the 2009 Equity Plan, incorporated by reference from Exhibit 10.4 to the Company’s Current Report on Form 8-K dated December 9, 2010.*
10.5	Form of Officer Restricted Share Unit Award Agreement regarding the 2009 Equity Plan, incorporated by reference from Exhibit 10.5 to the Company’s Current Report on Form 8-K dated December 9, 2010.*
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.

* Indicates a management contract or a compensatory plan or arrangement.

SIGNATURES

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

	KULICKE AND SOFFA INDUSTRIES, INC.
Date: February 9, 2011	By: /s/ JONATHAN CHOU Jonathan Chou Senior Vice President and Chief Financial Officer (Chief Financial Officer and Principal Accounting Officer)