

KULICKE & SOFFA INDUSTRIES INC  
Form 10-Q  
February 01, 2019  
UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10-Q

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

For the quarterly period ended December 29, 2018

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

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

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

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

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes  No

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

Large accelerated filer  Accelerated filer   
Non-accelerated filer  Smaller reporting company   
Emerging growth company

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

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

As of January 28, 2019, there were 66,140,665 shares of the Registrant's Common Stock, no par value, outstanding.



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## PART I. - FINANCIAL INFORMATION

## Item 1. – FINANCIAL STATEMENTS

## KULICKE AND SOFFA INDUSTRIES, INC.

## CONSOLIDATED CONDENSED BALANCE SHEETS

(in thousands)

Unaudited

	As of	
	December 29, 2018	September 29, 2018
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$277,426	\$ 320,630
Restricted cash	516	518
Short-term investments	355,000	293,000
Accounts and other receivable, net of allowance for doubtful accounts of \$8 and \$385 respectively	187,240	243,373
Inventories, net	109,731	115,191
Prepaid expenses and other current assets	13,667	14,561
Total current assets	943,580	987,273
Property, plant and equipment, net	77,320	76,067
Goodwill	56,340	56,550
Intangible assets, net	50,252	52,871
Deferred income taxes	9,456	9,017
Equity investments	1,330	1,373
Other assets	2,508	2,589
<b>TOTAL ASSETS</b>	<b>\$1,140,786</b>	<b>\$ 1,185,740</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$46,437	\$ 48,527
Accrued expenses and other current liabilities	75,905	105,978
Income taxes payable	21,115	19,571
Total current liabilities	143,457	174,076
Financing obligation	15,003	15,187
Deferred income taxes	25,359	25,591
Income taxes payable	89,295	81,491
Other liabilities	9,263	9,188
<b>TOTAL LIABILITIES</b>	<b>\$282,377</b>	<b>\$ 305,533</b>
Commitments and contingent liabilities (Note 14)		
<b>SHAREHOLDERS' EQUITY:</b>		
Preferred stock, without par value:		
Authorized 5,000 shares; issued - none	\$—	\$—
Common stock, no par value:		
Authorized 200,000 shares; issued 85,309 and 84,659, respectively; outstanding 66,560 and 67,143 shares, respectively	523,117	519,244

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Treasury stock, at cost, 18,749 and 17,516 shares, respectively	(274,149 )	(248,664 )
Retained earnings	613,525	613,529
Accumulated other comprehensive loss	(4,084 )	(3,902 )
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>\$858,409</b>	<b>\$ 880,207</b>

**TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY** \$1,140,786 \$ 1,185,740

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

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CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS

(in thousands, except per share data)

Unaudited

	Three months ended	
	December 2018	December 30, 2017
Net revenue	\$157,208	\$ 213,691
Cost of sales	82,409	116,489
Gross profit	74,799	97,202
Selling, general and administrative	30,441	27,793
Research and development	29,803	30,250
Operating expenses	60,244	58,043
Income from operations	14,555	39,159
Interest income	3,826	1,975
Interest expense	(251)	(266)
Income before income taxes	18,130	40,868
Income tax expense	10,570	110,412
Share of results of equity-method investee, net of tax	43	(16)
Net income/(loss)	\$7,517	\$ (69,528)
Net income/(loss) per share:		
Basic	\$0.11	\$ (0.99)
Diluted	\$0.11	\$ (0.99)
Weighted average shares outstanding:		
Basic	67,176	70,577
Diluted	67,851	70,577

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

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CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands)

Unaudited

	Three months ended	
	December 2018	December 30, 2017
Net income/(loss)	\$7,517	\$ (69,528 )
Other comprehensive (loss)/income:		
Foreign currency translation adjustment	(979 )	2,370
Unrecognized actuarial gain on pension plan, net of tax	4	12
	(975 )	2,382
Derivatives designated as hedging instruments:		
Unrealized (loss)/gain on derivative instruments, net of tax	(72 )	489
Reclassification adjustment for loss/(gain) on derivative instruments recognized, net of tax	865	(1,046 )
Net decrease/(increase) from derivatives designated as hedging instruments, net of tax	793	(557 )
Total other comprehensive (loss)/income	(182 )	1,825
Comprehensive income/(loss)	\$7,335	\$ (67,703 )

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

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## KULICKE AND SOFFA INDUSTRIES, INC.

## CONSOLIDATED CONDENSED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(in thousands)

Unaudited

	Common Stock		Treasury Stock	Retained earnings	Accumulated	
	Shares	Amount			Other Comprehensive loss	Shareholders' Equity
Balances as of September 29, 2018	67,143	\$519,244	\$(248,664)	\$613,529	\$ (3,902 )	\$ 880,207
Issuance of stock for services rendered	8	195	—	—	—	195
Repurchase of common stock	(1,233 )	—	(25,485 )	—	—	(25,485 )
Issuance of shares for market-based restricted stock and time-based restricted stock	642	—	—	—	—	—
Equity-based compensation	—	3,678	—	—	—	3,678
Cumulative effect of accounting changes	—	—	—	534	—	534
Cash dividend declared	—	—	—	(8,055 )	—	(8,055 )
Components of comprehensive income/(loss):						
Net income	—	—	—	7,517	—	7,517
Other comprehensive loss	—	—	—	—	(182 )	(182 )
Total comprehensive income/(loss)	—	—	—	7,517	(182 )	7,335
Balances as of December 29, 2018	66,560	\$523,117	\$(274,149)	\$613,525	\$ (4,084 )	\$ 858,409

	Common Stock		Treasury Stock	Retained earnings	Accumulated	
	Shares	Amount			Other Comprehensive income	Shareholders' Equity
Balances as of September 30, 2017	70,197	\$506,515	\$(157,604)	\$569,080	\$ 2,039	\$ 920,030
Issuance of stock for services rendered	9	195	—	—	—	195
Repurchase of common stock	(148 )	—	(3,280 )	—	—	(3,280 )
Exercise of stock options	6	55	—	—	—	55
Issuance of shares for market-based restricted stock and time-based restricted stock	540	—	—	—	—	—
Equity-based compensation	—	2,557	—	—	—	2,557
Cumulative effect of accounting changes	—	1,414	—	4,006	—	5,420
Components of comprehensive (loss)/income:						
Net loss	—	—	—	(69,528 )	—	(69,528 )
Other comprehensive income	—	—	—	—	1,825	1,825
Total comprehensive (loss)/income	—	—	—	(69,528 )	1,825	(67,703 )
Balances as of December 30, 2017	70,604	\$510,736	\$(160,884)	\$503,558	\$ 3,864	\$ 857,274

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

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CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS

(in thousands)

Unaudited

	Three months ended	
	December 2018	December 30, 2017
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income/(loss)	\$7,517	\$ (69,528 )
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	4,769	4,468
Equity-based compensation and employee benefits	3,873	3,109
Excess tax benefits from stock-based compensation	—	(50 )
Adjustment for doubtful accounts	(369 )	348
Adjustment for inventory valuation	189	1,352
Deferred income taxes	(648 )	20,982
Gain on disposal of property, plant and equipment	24	21
Unrealized foreign currency translation	(33 )	1,906
Share of results of equity-method investee	43	(16 )
Changes in operating assets and liabilities:		
Accounts and other receivable	56,497	24,390
Inventory	5,401	13,883
Prepaid expenses and other current assets	855	1,259
Accounts payable, accrued expenses and other current liabilities	(32,943 )	(37,139 )
Income taxes payable	9,883	85,339
Other, net	943	9
Net cash provided by operating activities	56,001	50,333
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of property, plant and equipment	(3,273 )	(5,183 )
Purchase of short-term investments	(231,000 )	(133,000 )
Maturity of short-term investments	169,000	90,000
Net cash used in investing activities	(65,273 )	(48,183 )
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Payment on debts	(183 )	(166 )
Proceeds from exercise of common stock options	—	55
Repurchase of common stock	(25,676 )	(3,280 )
Dividend payment	(8,057 )	—
Net cash used in financing activities	(33,916 )	(3,391 )
Effect of exchange rate changes on cash, cash equivalents and restricted cash	(18 )	(510 )
Changes in cash, cash equivalents and restricted cash	(43,206 )	(1,751 )
Cash, cash equivalents and restricted cash at beginning of period	321,148	392,940
Cash, cash equivalents and restricted cash at end of period	\$277,942	\$ 391,189
<b>CASH PAID FOR:</b>		
Interest	\$251	\$ 266
Income taxes, net of refunds	\$790	\$ 2,299

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



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KULICKE AND SOFFA INDUSTRIES, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

Unaudited

NOTE 1: BASIS OF PRESENTATION

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

The interim consolidated condensed financial statements are unaudited and, in management's opinion, include all adjustments (consisting only of normal and recurring adjustments) necessary for a fair statement of results for these interim periods. The interim consolidated condensed financial statements do not include all of the information and footnote disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) and should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended September 29, 2018, filed with the Securities and Exchange Commission, which includes Consolidated Balance Sheets as of September 29, 2018 and September 30, 2017, and the related Consolidated Statements of Operations, Statements of Other Comprehensive Income, Changes in Shareholders' Equity and Cash Flows for each of the years in the three-year period ended September 29, 2018. The results of operations for any interim period are not necessarily indicative of the results of operations for any other interim period or for a full year.

Fiscal Year

Each of the Company's first three fiscal quarters end on the Saturday that is 13 weeks after the end of the immediately preceding fiscal quarter. The fourth quarter of each fiscal year ends on the Saturday closest to September 30. Fiscal 2019 quarters end on December 29, 2018, March 30, 2019, June 29, 2019 and September 28, 2019. In fiscal years consisting of 53 weeks, the fourth quarter will consist of 14 weeks. Fiscal 2018 quarters ended on December 30, 2017, March 31, 2018, June 30, 2018 and September 29, 2018.

Nature of Business

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

Use of Estimates

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

these estimates.

**Vulnerability to Certain Concentrations**

Financial instruments which may subject the Company to concentrations of credit risk as of December 29, 2018 and September 29, 2018 consisted primarily of trade receivables. The Company manages credit risk associated with investments by investing its excess cash in highly rated debt instruments of the U.S. Government and its agencies, financial institutions, and corporations. The Company has established investment guidelines relative to diversification and maturities designed to maintain safety and liquidity. These guidelines are periodically reviewed and modified as appropriate. The Company does not have any exposure to sub-prime financial instruments or auction rate securities.

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KULICKE AND SOFFA INDUSTRIES, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

Unaudited (continued)

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

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

Foreign Currency Translation and Remeasurement

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

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

Derivative Financial Instruments

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

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

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

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

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KULICKE AND SOFFA INDUSTRIES, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

Unaudited (continued)

Cash Equivalents

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

Investments

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

Equity Investments

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

Allowance for Doubtful Accounts

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

Inventories

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

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

Property, Plant and Equipment

Property, plant and equipment are carried at cost. The cost of additions and those improvements which increase the capacity or lengthen the useful lives of assets are capitalized, while repair and maintenance costs are expensed as incurred. Depreciation and amortization are provided on a straight-line basis over the estimated useful lives as follows: buildings 25 years; machinery, equipment, furniture and fittings 3 to 10 years; toolings 1 year; and leasehold

improvements are based on the shorter of the life of lease or life of asset. Purchased computer software costs related to business and financial systems are amortized over a five-year period on a straight-line basis. Land is not depreciated.

#### Valuation of Long-Lived Assets

In accordance with ASC No. 360, Property, Plant & Equipment ("ASC 360"), the Company's property, plant and equipment is tested for impairment based on undiscounted cash flows when triggering events occur, and if impaired, written-down to fair value based on either discounted cash flows or appraised values. ASC 360 also provides a single accounting model for long-lived assets to be disposed of by sale and establishes additional criteria that would have to be met to classify an asset as held for sale. The

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KULICKE AND SOFFA INDUSTRIES, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

Unaudited (continued)

carrying amount of an asset or asset group is not recoverable to the extent it exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset or asset group. Estimates of future cash flows used to test the recoverability of a long-lived asset or asset group must incorporate the entity's own assumptions about its use of the asset or asset group and must factor in all available evidence.

ASC 360 requires that long-lived assets be tested for recoverability whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Such events include significant under-performance relative to historical internal forecasts or projected future operating results; significant changes in the manner of use of the assets; significant negative industry or economic trends; or significant changes in market capitalization. During the three months ended December 29, 2018, no "triggering" events occurred.

Accounting for Impairment of Goodwill

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

In January 2017, the FASB issued ASU 2017-04, Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment, which eliminates the requirement to perform a hypothetical purchase price allocation to measure goodwill impairment. Under this guidance, the goodwill impairment test is performed by comparing the fair value of a reporting unit with its carrying amount, and recognizing an impairment charge for the amount by which the carrying amount of the reporting unit exceeds its fair value, although it cannot exceed the total amount of goodwill allocated to that reporting unit. This ASU will be effective for us beginning in our first quarter of 2021 and early adoption is permitted. During the third quarter of 2017, we elected to prospectively adopt ASU2017-04. This eliminates the requirement to perform step 2 of the goodwill impairment test.

As part of the annual evaluation, the Company performs an impairment test of its goodwill in the fourth quarter of each fiscal year to coincide with the completion of its annual forecasting and refreshing of its business outlook processes. On an ongoing basis, the Company monitors if a "triggering" event has occurred that may have the effect of reducing the fair value of a reporting unit below its respective carrying value. Adverse changes in expected operating results and/or unfavorable changes in other economic factors used to estimate fair values could result in a non-cash impairment charge in the future.

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

For further information on goodwill and other intangible assets, see Note 3 below.

Revenue Recognition

In accordance with ASC No. 606, Revenue from Contracts with Customers, the Company recognizes revenue when we satisfy performance obligations as evidenced by the transfer of control of our products or services to customers. In

general, the Company generates revenue from product sales, either directly to customers or to distributors. In determining whether a contract exists, we evaluate the terms of the agreement, the relationship with the customer or distributor and their ability to pay.

The Company recognizes revenue from sales of our products, including sales to our distributors, at a point in time, generally upon shipment or delivery to the customer or distributor, depending upon the terms of the sales order. Control is considered transferred when title and risk of loss pass, when the customer becomes obligated to pay and, where applicable, when the customer has accepted the products or upon expiration of the acceptance period. For sales to distributors, payment is due on our standard commercial terms and is not contingent upon resale of the products. Our business is subject to contingencies related to customer orders, including:

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NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

Unaudited (continued)

**Right of Return:** A large portion of our revenue comes from the sale of equipments used in the semiconductor assembly process. Other product sales relate to consumable products, which are sold in high-volume quantities, and are generally maintained at low stock levels at our customer's facility. Customer returns have historically represented a very small percentage of customer sales on an annual basis.

**Warranties:** Our equipment is generally shipped with a one-year warranty against manufacturing defects. We establish reserves for estimated warranty expense when revenue for the related equipment is recognized. The reserve for estimated warranty expense is based upon historical experience and management's estimate of future expenses, including product parts replacement, freight charges and labor costs expected to be incurred to correct product failures during the warranty period.

**Conditions of Acceptance:** Sales of our consumable products generally do not have customer acceptance terms. In certain cases, sales of our equipment have customer acceptance clauses which may require the equipment to perform in accordance with customer specifications or when installed at the customer's facility. In such cases, if the terms of acceptance are satisfied at our facility prior to shipment, the revenue for the equipment will be recognized upon shipment. If the terms of acceptance are satisfied at our customers' facilities, the revenue for the equipment will not be recognized until acceptance, which is typically obtained after installation and testing, is received from the customer. Service revenue is generally recognized over time as the services are performed. For the three months ended December 29, 2018, and December 30, 2017, the service revenue is not material.

The Company measures revenue based on the amount of consideration we expect to be entitled to in exchange for products or services. Any variable consideration such as sales incentives are recognized as a reduction of net revenue at the time of revenue recognition.

The length of time between invoicing and payment is not significant under any of our payment terms. In instances where the timing of revenue recognition differs from the timing of invoicing, we have determined our contracts generally do not include a significant financing component.

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

**Research and Development**

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

**Income Taxes**

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

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



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NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

Unaudited (continued)

Equity-Based Compensation

The Company accounts for equity-based compensation under the provisions of ASC No. 718, Compensation - Stock Compensation ("ASC 718"). ASC 718 requires the recognition of the fair value of the equity-based compensation in net income. Compensation expense associated with Relative TSR Performance Share Units is determined using a Monte-Carlo valuation model, and compensation expense associated with time-based and Special/Growth Performance Share Units is determined based on the number of shares granted and the fair value on the date of grant. See Note 9 for a summary of the terms of these performance-based awards. The fair value of the Company's stock option awards is estimated using a Black-Scholes option valuation model. The fair value of equity-based awards is amortized over the vesting period of the award and the Company elected to use the straight-line method for awards granted after the adoption of ASC 718.

Earnings per Share

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

Accounting for Business Acquisitions

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

Restructuring charges

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

Recent Accounting Pronouncements

Income Taxes

In October 2016, the FASB issued ASU 2016-16, Accounting for Income Taxes: Intra-Entity Asset Transfers of Assets Other than Inventory. The new guidance is effective for the Company beginning fiscal 2019 and requires the tax effects of intercompany transactions (other than transfers of inventory) to be recognized currently. The Company has adopted the modified retrospective approach for the transition based on the new guidance and, as of the beginning of the period of adoption, has recorded the cumulative effect of adjustments related to intra-entity transfers of intangible and fixed assets of \$0.5 million prior years as an increase to retained earnings.

Leases

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

Subsequently in July 2018, the FASB issued ASU 2018-11 -Leases (Topic 842): Targeted Improvements, provides additional information concerning the new leases standard in ASU 2016-02, Leases (Topic 842). The targeted improvements provide entities with additional and optional transition methods.

In November 2018, the FASB issued ASU 2018-20 – Leases (Topic 842): Narrow-Scope Improvements for Lessors. This ASU provides guidance in several areas, including the accounting policy election for sales taxes and other similar taxes collected from lessees, accounting for certain lessor costs and accounting for variable payments for contracts with lease and nonlease components.

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

Financial Instruments

In June 2016, the FASB issued ASU 2016-13, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. This ASU replaces the impairment methodology in current GAAP, which delays recognition of credit losses until it is probable a loss has been incurred, with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. This ASU will be effective for us beginning in our first quarter of fiscal 2021. We are currently evaluating the impact of the adoption of this ASU on our financial statements.

Derivatives and Hedging

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

Revenue Recognition

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606) ("ASU 2014-09"), which amends the accounting standards for revenue recognition. ASU 2014-09 is based on principles that govern the recognition of revenue at an amount an entity expects to be entitled when products are transferred to customers.

Subsequently, the FASB has issued the following standards related to ASU 2014-09: ASU 2016-08, Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations ("ASU 2016-08"); ASU 2016-10, Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing ("ASU 2016-10"); ASU 2016-12, Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients ("ASU 2016-12"); and ASU 2016-20, Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers ("ASU 2016-20" and collectively, the "new revenue standards").

The Company has performed an evaluation of this ASU and its impact on the financial statements. This included tasks such as identifying contracts, performance obligations and reviewing the applicable revenue streams. We have completed our assessment and implemented policies, processes, and controls to support the standard's measurement and disclosure requirements. The new standard was adopted in the first quarter of fiscal 2019 using a modified retrospective approach.

Based on our review of all our customer agreements for the affected periods, our revenue from sales of our products, such as equipment and spare parts, will continue to be recognized at a point in time, generally upon shipment or delivery to customers or distributors, depending upon the terms of the sales order, consistent with our current revenue recognition model. Revenue related to the sale of services will generally continue to be recognized over time as the services are performed. In certain instances, where collection of consideration is not probable, recognition of revenue may occur later under the new model after we have completed all of our obligations under the contract. However, when adopting the new standard, we did not identify any balances where collection of consideration is not probable. This ASU did not have a material impact on the amount and timing of revenue recognized in the Company's consolidated financial statements.

Collaborative Arrangements

In November 2018, the FASB issued ASU 2018-18 – Collaborative Arrangements (Topic 808). This ASU clarifies that certain transactions between collaborative arrangement participants should be accounted for as revenue when the

collaborative arrangement participant is a customer in the context of a unit of account and precludes recognizing as revenue consideration received from a collaborative arrangement participant if the participant is not a customer. This ASU will be effective for us in the first quarter of 2021 with early adoption permitted. This ASU requires retrospective adoption to the date we adopted ASC 606 by recognizing a cumulative-effect adjustment to the opening balance of retained earnings of the earliest annual period presented. We are currently evaluating the timing and the effects of the adoption of this ASU on our financial statements.

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NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

Unaudited (continued)

## NOTE 2: BALANCE SHEET COMPONENTS

The following tables reflect the components of significant balance sheet accounts as of December 29, 2018 and September 29, 2018:

(in thousands)	As of	
	December 29, 2018	September 29, 2018
Short term investments, available-for-sale <sup>(1)</sup>	\$ 355,000	\$ 293,000
Inventories, net:		
Raw materials and supplies	\$ 63,633	\$ 63,894
Work in process	36,204	37,829
Finished goods	36,711	40,357
	136,548	142,080
Inventory reserves	(26,817 )	(26,889 )
	\$ 109,731	\$ 115,191
Property, plant and equipment, net:		
Land	\$ 2,182	\$ 2,182
Buildings and building improvements	52,323	52,449
Leasehold improvements	12,868	12,728
Data processing equipment and software	36,105	35,469
Machinery, equipment, furniture and fixtures	70,066	68,666
Construction in progress	8,492	6,940
	182,036	178,434
Accumulated depreciation	(104,716 )	(102,367 )
	\$ 77,320	\$ 76,067
Accrued expenses and other current liabilities:		
Wages and benefits	\$ 19,391	\$ 44,505
Accrued customer obligations <sup>(2)</sup>	33,491	34,918
Dividend payable	8,055	8,057
Commissions and professional fees	3,981	5,549
Deferred rent	1,820	1,847
Severance	717	1,415
Other	8,450	9,687
	\$ 75,905	\$ 105,978

All short-term investments were classified as available-for-sale and were measured at fair value based on level one (1) measurement, or quoted market prices, as defined by ASC 820. The Company did not recognize any realized gains or losses on the sale of investments during the three months ended December 29, 2018 and December 30, 2017.

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



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NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

Unaudited (continued)

## NOTE 3: GOODWILL AND INTANGIBLE ASSETS

## Goodwill

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

The Company performed its annual impairment test in the fourth quarter of fiscal 2018 and concluded that no impairment charge was required. Any future adverse changes in expected operating results and/or unfavorable changes in other economic factors used to estimate fair values could result in a noncash impairment in the future. During the three months ended December 29, 2018, the Company reviewed qualitative factors to ascertain if a "triggering" event may have taken place that may have the effect of reducing the fair value of the reporting unit below its carrying value and concluded that no triggering event had occurred.

The following table summarizes the Company's recorded goodwill as of December 29, 2018 and September 29, 2018:

(in thousands)	As of	
	December 29, 2018	September 29, 2018
Capital Equipment	\$29,993	\$ 30,159
APS	26,347	26,391
Total goodwill	\$56,340	\$ 56,550

## Intangible Assets

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

The following table reflects net intangible assets as of December 29, 2018 and September 29, 2018:

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NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

Unaudited (continued)

(dollar amounts in thousands)	As of December 31, 2018	September 30, 2018	Average estimated useful lives (in years)
Developed technology	\$89,687	\$ 90,500	7.0 to 15.0
Accumulated amortization	(46,153 )	(45,229 )	
Net developed technology	\$43,534	\$ 45,271	
Customer relationships	\$35,896	\$ 36,131	5.0 to 6.0
Accumulated amortization	(30,352 )	(29,820 )	
Net customer relationships	\$5,544	\$ 6,311	
Trade and brand names	\$7,338	\$ 7,377	7.0 to 8.0
Accumulated amortization	(6,164 )	(6,088 )	
Net trade and brand name	\$1,174	\$ 1,289	
Other intangible assets	\$2,500	\$ 2,500	1.9
Accumulated amortization	(2,500 )	(2,500 )	
Net other intangible assets	\$—	\$ —	
Net intangible assets	\$50,252	\$ 52,871	

The following table reflects estimated annual amortization expense related to intangible assets as of December 29, 2018:

(in thousands)	As of December 29, 2018
Remaining fiscal 2019	\$ 5,645
Fiscal 2020	7,526
Fiscal 2021	5,451
Fiscal 2022	4,467
Fiscal 2023 and onwards	27,163
Total amortization expense	\$ 50,252

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

Cash equivalents consist of instruments with remaining maturities of three months or less at the date of purchase. In general, these investments are free of trading restrictions.

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NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

Unaudited (continued)

Cash, cash equivalents, restricted cash and short-term investments consisted of the following as of December 29, 2018:

(in thousands)	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
Current assets:				
Cash	\$ 53,793	\$ —	\$ —	\$ 53,793
Cash equivalents:				
Money market funds <sup>(1)</sup>	153,617	—	—	153,617
Time deposits <sup>(2)</sup>	70,016	—	—	70,016
Total cash and cash equivalents	\$ 277,426	\$ —	\$ —	\$ 277,426
Restricted Cash <sup>(2)</sup>	516	—	—	516
Total cash, cash equivalents, and restricted cash	\$ 277,942	\$ —	\$ —	\$ 277,942
Short-term investments <sup>(2)</sup> :				
Time deposits	256,000	—	—	256,000
Deposits <sup>(3)</sup>	99,000	—	—	99,000
Total short-term investments	\$ 355,000	\$ —	\$ —	\$ 355,000
Total cash, cash equivalents, restricted cash and short-term investments	\$ 632,942	\$ —	\$ —	\$ 632,942

(1) The fair value was determined using unadjusted prices in active, accessible markets for identical assets, and as such they were classified as Level 1 assets in the fair value hierarchy.

(2) Fair value approximates cost basis.

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

Cash, cash equivalents, restricted cash and short-term investments consisted of the following as of September 29, 2018:

(in thousands)	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
Current assets:				
Cash	\$ 42,446	\$ —	\$ —	\$ 42,446

Cash equivalents:					
Money market funds <sup>(1)</sup>	209,172	—	(5	)	209,167
Time deposits <sup>(2)</sup>	69,017	—	—		69,017
Total cash and cash equivalents	\$ 320,635	\$ —	\$ (5	)	\$ 320,630
Restricted Cash <sup>(2)</sup>	518	—	—		518
Total cash, cash equivalents, and restricted cash	\$ 321,153	\$ —	\$ (5	)	\$ 321,148
Short-term investments <sup>(2)</sup> :					
Time deposits	197,000	—	—		197,000
Deposits <sup>(3)</sup>	96,000	—	—		96,000
Total short-term investments	\$ 293,000	\$ —	\$ —		\$ 293,000
Total cash, cash equivalents, restricted cash and short-term investments	\$ 614,153	\$ —	\$ (5	)	\$ 614,148

(1) The fair value was determined using unadjusted prices in active, accessible markets for identical assets, and as such they were classified as Level 1 assets in the fair value hierarchy.

(2) Fair value approximates cost basis.

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

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NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

Unaudited (continued)

NOTE 5: EQUITY INVESTMENTS

Equity investments consisted of the following as of December 29, 2018 and September 29, 2018:

(in thousands)	As of	
	December 29, 2018	September 29, 2018
Equity method investment	\$ 1,330	\$ 1,373

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

NOTE 6: FAIR VALUE MEASUREMENTS

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

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

We measure certain financial assets and liabilities at fair value on a recurring basis. There were no transfers between fair value measurement levels during the three months ended December 29, 2018.

Fair Value Measurements on a Nonrecurring Basis

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

Fair Value of Financial Instruments

Amounts reported as accounts receivables, prepaid expenses and other current assets, accounts payable and accrued expenses approximate fair value.

NOTE 7: DERIVATIVE FINANCIAL INSTRUMENTS

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

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

The fair value of derivative instruments on our Consolidated Condensed Balance Sheet as of December 29, 2018 and September 29, 2018 was as follows:



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NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

Unaudited (continued)

(in thousands)	As of			
	December 29, 2018	September 29, 2018		
	Notional Amount	Fair Value (Liability) Derivatives <sup>(1)</sup>	Notional Amount	Fair Value (Liability) Derivatives <sup>(1)</sup>
Derivatives designated as hedging instruments:				
Foreign exchange forward contracts <sup>(2)</sup>	\$32,540	(278 )	\$43,095	\$ (1,071 )
Total derivatives	\$32,540	(278 )	\$43,095	\$ (1,071 )

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

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

The effects of derivative instruments designated as cash flow hedges in our Consolidated Condensed Statements of Comprehensive Income for the three months ended December 29, 2018 and December 30, 2017 are as follows:

(in thousands)	Three months ended	
	December 29, 2018	December 30, 2017
Foreign exchange forward contract in cash flow hedging relationships:		
Net (loss)/gain recognized in OCI, net of tax <sup>(1)</sup>	\$(72 )	\$ 489
Net (loss)/gain reclassified from accumulated OCI into income, net of tax <sup>(2)</sup>	\$(865)	\$ 1,046

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

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

**NOTE 8: DEBT AND OTHER OBLIGATIONS****Financing Obligation**

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

Pursuant to ASC No. 840, Leases ("ASC 840"), we have classified the Building on our balance sheet as property, plant and equipment, which we are depreciating over its estimated useful life of 25 years. We concluded that the term of the financing obligation is 10 years. This is equal to the non-cancellable term of our lease agreement with the Landlord. At the inception of the lease, the asset and financing obligation recorded on the balance sheet was \$20.0 million, which was based on an interest rate of 6.3% over the Initial Term. As of December 29, 2018, the financing obligation related to the Building is \$15.8 million, which approximates fair value (Level 2). The financing obligation will be settled through a combination of periodic cash rental payments and the return of the leased property at the expiration of the lease. We do not report rent expense for the property, which is deemed owned for accounting purposes. Rather, rental payments required under the lease are considered debt service and applied to the deemed landlord financing obligation and interest expense. The Building and financing obligation are being amortized in a manner that will not generate a gain or loss upon lease termination.

**Credit Facilities and Bank Guarantees**

On November 22, 2013, the Company obtained a \$5.0 million credit facility with Citibank in connection with the issuance of bank guarantees for operational purposes. As of December 29, 2018, the outstanding amount is \$3.0

million. In addition, the Company has other bank guarantees for operational purposes which are secured with corresponding deposits placed with the issuer banks. These amounts are shown as restricted cash in the Consolidated Condensed Balance Sheets.

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NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

Unaudited (continued)

## NOTE 9: SHAREHOLDERS' EQUITY AND EMPLOYEE BENEFIT PLANS

## Common Stock and 401(k) Retirement Plan

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

The following table reflects the Company's contributions to the Plan during the three months ended December 29, 2018 and December 30, 2017:

(in thousands)	Three months ended	
	December 29, 2018	December 30, 2017
Cash	\$ 494	\$ 501

## Stock Repurchase Program

On August 15, 2017, the Company's Board of Directors authorized a program (the "Program") to repurchase up to \$100 million of the Company's common stock on or before August 1, 2020. On July 10, 2018, the Board of Directors increased the share repurchase authorization under the Program to \$200 million. The Company has entered into a written trading plan under Rule 10b5-1 of the Exchange Act to facilitate repurchases under the Program. The Program may be suspended or discontinued at any time and is funded using the Company's available cash, cash equivalents and short-term investments. Under the Program, shares may be repurchased through open market and/or privately negotiated transactions at prices deemed appropriate by management. The timing and amount of repurchase transactions under the Program depend on market conditions as well as corporate and regulatory considerations. During the three months ended December 29, 2018, the Company repurchased a total of 1.2 million shares of common stock under the Program at a cost of \$25.5 million. The stock repurchases were recorded in the periods they were delivered and accounted for as treasury stock in the Company's Consolidated Condensed Balance Sheet. The Company records treasury stock purchases under the cost method using the first-in, first-out (FIFO) method. Upon reissuance of treasury stock, amounts in excess of the acquisition cost are credited to additional paid-in capital. If the Company reissues treasury stock at an amount below its acquisition cost and additional paid-in capital associated with prior treasury stock transactions is insufficient to cover the difference between acquisition cost and the reissue price, this difference is recorded against retained earnings. As of December 29, 2018, our remaining stock repurchase authorization under the Program was approximately \$72.2 million.

## Dividends

On December 12, 2018, the Board of Directors declared quarterly dividend of \$0.12 per share of common stock. Dividends paid during the three months ended December 29, 2018 totaled \$8.1 million. The declaration of any future cash dividend is at the discretion of the Board of Directors and will depend on the Company's financial condition, results of operations, capital requirements, business conditions and other factors, as well as a determination that such dividends are in the best interests of the Company's stockholders.

## Accumulated Other Comprehensive Income

The following table reflects accumulated other comprehensive loss reflected on the Consolidated Condensed Balance Sheets as of December 29, 2018 and September 29, 2018:

(in thousands)	As of	
	December 29, 2018	September 29, 2018
Loss from foreign currency translation adjustments	\$(2,190)	\$(1,211)
Unrecognized actuarial loss on pension plan, net of tax	(1,616)	(1,620)
Unrealized loss on hedging	(278)	(1,071)
Accumulated other comprehensive loss	\$(4,084)	\$(3,902)

Equity-Based Compensation

The Company has stockholder-approved equity-based employee compensation plans (the “Employee Plans”) and director compensation plans (the “Director Plans”) (collectively, the “Equity Plans”). As of December 29, 2018, 4.0 million shares of common stock are available for grant to its employees and directors under the 2017 Equity Plan, including previously registered shares that have been carried forward for issuance from the 2009 Equity Plan.

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KULICKE AND SOFFA INDUSTRIES, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

Unaudited (continued)

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

Relative TSR Performance Share Units ("Relative TSR PSUs") entitles the employee to receive common shares of the Company on the award vesting date, if market performance objectives that measure relative total shareholder return ("TSR") are attained. Relative TSR is calculated based upon the 90-calendar day average price of the Company's stock as compared to specific peer companies that comprise the GICS (45301020) Semiconductor Index. TSR is measured for the Company and each peer company over a performance period, which is generally three years. Vesting percentages range from 0% to 200% of awards granted. The provisions of the Relative TSR PSUs are reflected in the grant date fair value of the award; therefore, compensation expense is recognized regardless of whether the market condition is ultimately satisfied. Compensation expense is reversed if the award is forfeited prior to the vesting date. Special/Growth Performance Share Units ("Special/Growth PSUs") entitles the employee to receive common shares of the Company on the three-year anniversary of the grant date (if employed by the Company) if revenue growth targets set by the Management Development and Compensation Committee ("MDCC") of the Board of Directors on the date of grant are met. If revenue growth targets are not met, the Special/Growth PSUs do not vest. Certain Special/Growth PSUs vest based on achievement of strategic goals over a certain time period or periods set by the MDCC. If the strategic goals are not achieved, the Special/Growth PSUs do not vest.

Equity-based compensation expense recognized in the Consolidated Condensed Statements of Operations for the three months ended December 29, 2018 and December 30, 2017 was based upon awards ultimately expected to vest.

Following the early adoption of ASU 2016-09, Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting in this quarter, forfeitures have been accounted for when they occur.

The following table reflects Time-based RSUs, Relative TSR PSUs, Special/Growth PSUs and common stock granted during the three months ended December 29, 2018 and December 30, 2017:

(shares in thousands)	Three months ended	
	December 29, 2018	December 30, 2017
Time-based RSUs	507	430
Relative TSR PSUs	157	153
Special/Growth PSUs	52	59
Common stock	8	9
Equity-based compensation in shares	724	651

The following table reflects total equity-based compensation expense, which includes Time-based RSUs, Relative TSR PSUs, Special/Growth PSUs and common stock, included in the Consolidated Condensed Statements of Operations during the three months ended December 29, 2018 and December 30, 2017:

(in thousands)	Three months ended	
	December 29, 2018	December 30, 2017
Cost of sales	\$150	\$ 132
Selling, general and administrative	2,925	2,323
Research and development	798	654
Total equity-based compensation expense	\$3,873	\$ 3,109



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KULICKE AND SOFFA INDUSTRIES, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

Unaudited (continued)

The following table reflects equity-based compensation expense, by type of award, for the three months ended December 29, 2018 and December 30, 2017:

(in thousands)	Three months ended	
	December 29, 2018	December 30, 2017
Time-based RSUs	\$2,141	\$ 2,135
Relative TSR PSUs	1,375	723
Special/Growth PSUs	162	56
Common stock	195	195
Total equity-based compensation expense	\$3,873	\$ 3,109

**NOTE 10: REVENUE AND CONTRACT LIABILITIES**

The Company recognizes revenue when we satisfy performance obligations as evidenced by the transfer of control of our products or services to customers. In general, the Company generates revenue from product sales, either directly to customers or to distributors. In determining whether a contract exists, we evaluate the terms of the agreement, the relationship with the customer or distributor and their ability to pay. Service revenue is generally recognized over time as the services are performed. For the three months ended December 29, 2018, and December 30, 2017, the service revenue is not material. Please refer to Note 1: Basis of Presentation- Revenue Recognition, for disclosure on the Company's revenue recognition.

The Company disaggregates revenue based on our reportable segments. The Company believes that disaggregating revenue into these categories achieves the disclosure objective to depict how the nature, amount, timing, and uncertainty of revenue and cash flows are affected by economic factors. Please refer to Note 13: Segment information, for disclosure of disaggregated revenue.

**Contract Liabilities**

Our contract liabilities are primarily relates to advance payments received from customers to secure product in future periods where we have received amounts in advance of satisfying performance obligations and are reported in the accompanying consolidated condensed balance sheets within accrued expenses and other current liabilities.

Contract liabilities increase as a result of receiving new advance payments from customers and decrease as revenue is recognized from customers purchasing product under advance payment arrangements upon meeting the performance obligations.

The following table shows the changes in contract liability balances during the three months ended December 29, 2018:

(in thousands)	
Contract liabilities as at September 29, 2018	\$997
Revenue recognized	(3,178)
Additions	2,729
Contract liabilities as at December 29, 2018	\$548

**NOTE 11: EARNINGS PER SHARE**

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



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KULICKE AND SOFFA INDUSTRIES, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

Unaudited (continued)

The following tables reflect a reconciliation of the shares used in the basic and diluted net income per share computation for the three months ended December 29, 2018 and December 30, 2017:

(in thousands, except per share data)	Three months ended			
	December 29, 2018		December 30, 2017	
	Basic	Diluted	Basic	Diluted
<b>NUMERATOR:</b>				
Net income/(loss)	\$7,517	\$7,517	\$(69,528)	\$(69,528)
<b>DENOMINATOR:</b>				
Weighted average shares outstanding - Basic	67,176	67,176	70,577	70,577
Dilutive effect of Equity Plans		675		—
Weighted average shares outstanding - Diluted		67,851		70,577
<b>EPS:</b>				
Net income/(loss) per share - Basic	\$0.11	\$0.11	\$(0.99)	\$(0.99)
Effect of dilutive shares		—		—
Net income/(loss) per share - Diluted		\$0.11		\$(0.99)

**NOTE 12: INCOME TAXES**

The following table reflects the provision for income taxes and the effective tax rate for the three months ended December 29, 2018 and December 30, 2017:

(dollar amounts in thousands)	Three months ended	
	December 29, 2018	December 30, 2017
Income tax expense	\$10,570	\$110,412
Effective tax rate	58.4 %	270.2 %

For the three months ended December 29, 2018, the effective income tax rate differed from the federal statutory tax rate primarily due to tax expense related to an adjustment to the one-time transition tax on deemed repatriation of previously untaxed accumulated earnings and profits of certain foreign subsidiaries as a result of the enactment of the Tax Cuts and Jobs Act of 2017 (the "Act"), foreign withholding taxes, and tax liabilities from foreign operations, partially offset by tax benefits from profits generated in foreign operations subject to a lower statutory tax rate than the federal rate, tax benefits from domestic research expenditures, foreign tax credit, and the impact of tax holidays.

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

The decrease in tax expense for the three months ended December 29, 2018 of \$10.6 million from the tax expense for the three months ended December 30, 2017 of \$110.4 million was primarily related to the enactment of the Act and lower worldwide profits in the first quarter of fiscal 2019, net of \$7.7 million tax expense primarily related to an adjustment to the one-time transition tax due to new guidance issued by the U.S. Department of Treasury on November 28, 2018.

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

thereof.

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

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KULICKE AND SOFFA INDUSTRIES, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

Unaudited (continued)

In accordance with Staff Accounting Bulletin No. 118 ("SAB 118"), the accounting for the tax effects for the Act has been completed in the first quarter of fiscal 2019. In addition, the Company has made an accounting policy election to record tax effects of its global intangible low-taxed income as a period cost in the period the tax is incurred.

## NOTE 13: SEGMENT INFORMATION

Reportable segments are defined as components of an enterprise that engage in business activities for which discrete financial information is available and regularly reviewed by the chief operating decision maker in deciding how to allocate resources and to assess performance. The Company's Chief Executive Officer is the Company's chief operating decision maker. The chief operating decision maker does not review discrete asset information. The Company operates two reportable segments consisting of: (i) Capital Equipment; and (ii) Aftermarket Products and Services ("APS").

The following table reflects operating information by segment for the three months ended December 29, 2018 and December 30, 2017:

(in thousands)	Three months ended	
	December 29, 2018	December 30, 2017
Net revenue:		
Capital Equipment	\$ 115,938	\$ 171,603
APS	41,270	42,088
Net revenue	157,208	213,691
Income from operations:		
Capital Equipment	5,130	29,981
APS	9,425	9,178
Income from operations	\$ 14,555	\$ 39,159

The following tables reflect capital expenditures, depreciation expense and amortization expense for the three months ended December 29, 2018 and December 30, 2017.

(in thousands)	Three months ended	
	December 29, 2018	December 30, 2017
Capital expenditures:		
Capital Equipment	\$ 2,184	\$ 1,835
APS	2,758	4,422
	\$ 4,942	\$ 6,257
(in thousands)	Three months ended	
	December 29, 2018	December 30, 2017
Depreciation expense:		
Capital Equipment	\$ 1,738	\$ 1,788
APS	1,154	737
	\$ 2,892	\$ 2,525

## Amortization expense:

Capital Equipment	\$ 1,007	\$ 1,043
APS	870	900
	\$ 1,877	\$ 1,943



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KULICKE AND SOFFA INDUSTRIES, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

Unaudited (continued)

## NOTE 14: COMMITMENTS, CONTINGENCIES AND CONCENTRATIONS

## Warranty Expense

The Company's equipment is generally shipped with a one-year warranty against manufacturing defects. The Company establishes reserves for estimated warranty expense when revenue for the related equipment is recognized. The reserve for estimated warranty expense is based upon historical experience and management's estimate of future warranty costs, including product part replacement, freight charges and labor costs incurred in correcting product failures during the warranty period.

The following table reflects the reserve for warranty activity for the three months ended December 29, 2018 and December 30, 2017:

(in thousands)	Three months ended	
	December 2018	December 31, 2017
Reserve for warranty, beginning of period	\$ 14,475	\$ 13,796
Provision for warranty	3,086	2,960
Utilization of reserve	(3,160 )	(3,064 )
Reserve for warranty, end of period	\$ 14,401	\$ 13,692

## Other Commitments and Contingencies

The following table reflects obligations not reflected on the Consolidated Condensed Balance Sheet as of December 29, 2018:

(in thousands)	Total	Payments due by fiscal year				
		2019	2020	2021	2022	thereafter
Inventory purchase obligation (1)	\$ 109,536	\$ 109,536	\$ —	\$ —	\$ —	\$ —
Operating lease obligations (2)	18,027	2,928	3,603	2,340	1,912	7,244
Total	\$ 127,563	\$ 112,464	\$ 3,603	\$ 2,340	\$ 1,912	\$ 7,244

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

The Company has minimum rental commitments under various leases (excluding taxes, insurance, maintenance and repairs, which are also paid by the Company) primarily for various facility and equipment leases, which expire periodically through 2027 (not including lease extension options, if applicable).

Pursuant to ASC No. 840, Leases, for lessee's involvement in asset construction, the Company was considered the owner of the Building during the construction phase. The Building was completed on December 1, 2013 and Pte signed an agreement with the Landlord to lease from the Landlord approximately 198,000 square feet, representing approximately 70% of the Building. Following the completion of construction, we performed a sale-leaseback analysis pursuant to ASC 840-40 and determined that because of our continuing involvement, ASC 840-40 precluded us from derecognizing the asset and associated financing obligation. As such, we reclassified the asset from construction in progress to property, plant and equipment and began to depreciate the building over its estimated useful life of 25 years. We concluded that the term of the financing obligation is 10 years. This is equal to the non-cancellable term of our lease agreement with the Landlord. As of December 29, 2018, we recorded a financing obligation related to the Building of \$15.8 million (see Note 8 above). The financing obligation is not reflected in the table above.

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KULICKE AND SOFFA INDUSTRIES, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

Unaudited (continued)

## Concentrations

The following table reflects significant customer concentrations as a percentage of net revenue for the three months ended December 29, 2018 and December 30, 2017.

	Three months ended		
	December 29, 2018	December 30, 2017	
Micron Technology, Inc	18.5 %	*	
Haoseng Industrial Company Limited <sup>(1)</sup>	*	10.9 %	
Tesla, Inc	*	10.9 %	

(1) Distributor of the Company's products.

\* Represented less than 10% of total net revenue

The following table reflects significant customer concentrations as a percentage of total accounts receivable as of December 29, 2018 and December 30, 2017:

	As of		
	December 29, 2018	December 30, 2017	
Micron Technology, Inc	17.7 %	*	
Haoseng Industrial Company Limited <sup>(1)</sup>	15.5 %	29.6 %	
Super Power International <sup>(1)</sup>	15.4 %	*	

(1) Distributor of the Company's products.

\* Represented less than 10% of total accounts receivable

## NOTE 15: SUBSEQUENT EVENTS

On January 22, 2019, the Company entered into foreign exchange forward contracts with notional amount of \$13.9 million. The Company entered into these foreign exchange forward contracts to hedge a portion of our forecasted foreign currency-denominated expenses in the normal course of business and, accordingly, they are not speculative in nature. These foreign exchange forward contracts have maturities of up to twelve months.

On January 31, 2019, the Company made a \$5.0 million investment in one of our collaborative partners. The investment is accounted for under ASC 321- Investments- Equity Securities.

On January 31, 2019, the Board of Directors increased the share repurchase authorization under the Program by an additional \$100 million to \$300 million.

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

Forward-Looking Statements

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

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

Generally, words such as "may," "will," "should," "could," "anticipate," "expect," "intend," "estimate," "plan," "continue," "g," "believe," or the negative of or other variations on these and other similar expressions identify forward-looking statements. These forward-looking statements are made only as of the date of this filing. We do not undertake to update or revise the forward-looking statements, whether as a result of new information, future events or otherwise. Forward-looking statements are based on current expectations and involve risks and uncertainties. Our future results could differ significantly from those expressed or implied by our forward-looking statements. These risks and uncertainties include, without limitation, those described below and under the heading "Risk Factors" in our amended Annual Report on Form 10-K for the fiscal year ended September 29, 2018 (the "Annual Report") and our other reports and registration statements filed from time to time with the Securities and Exchange Commission. This discussion should be read in conjunction with the Consolidated Condensed Financial Statements and Notes included in this report, as well as our audited financial statements included in the Annual Report.

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

OVERVIEW

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

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

The Company operates two reportable segments consisting of: Capital Equipment and Aftermarket Products and Services ("APS"). The Company has aggregated twelve operating segments as of December 29, 2018, with six operating segments within the Capital Equipment reportable segment and six operating segments within APS reportable segment.

Our Capital Equipment segment is comprised of the manufacturing and selling of ball bonders, wafer level bonders, wedge bonders, advanced packaging and electronic assembly solutions to semiconductor device manufacturers, IDMs, OSATs, other electronics manufacturers and automotive electronics suppliers. Our APS segment is comprised of the manufacturing and selling of a variety of tools for a broad range of semiconductor packaging applications, spare parts, equipment repair, maintenance and servicing, training services, refurbishment and upgrades for our equipment.

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### Business Environment

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

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

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

To limit potential adverse cyclical, seasonal and macroeconomic effects on our financial position, we have continued our efforts to maintain a strong balance sheet. As of December 29, 2018, our total cash, cash equivalents, restricted cash and short-term investments were \$632.9 million, a \$18.8 million increase from the prior fiscal year end. We believe this strong cash position will allow us to continue to invest in product development and pursue non-organic opportunities.

### Technology Leadership

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

In addition to gold, silver alloy wire and aluminum wire, our leadership in the industry's use of copper wire for the bonding process is an example of the benefits of our collaborative efforts. By working with customers, material suppliers, and other equipment suppliers, we have developed a series of robust, high-yielding production processes, which have made copper wire widely accepted and significantly reduced the cost of assembling an integrated circuit. Our leadership also has allowed us to maintain a competitive position in the latest generations of ball bonders. Gen-S is our smart bonder series and RAPID™ is the first product in the series to address the Industry 4.0 requirements. The key features of this series include Real-time Process & Performance Monitoring, Real-time Equipment Health Monitoring, Advanced Data Analytics & Traceability, Predictive Maintenance Monitoring & Analysis, and Detection

& Enhanced Post bond Inspection.

We optimize our bonder platforms to deliver variants of our products to serve emerging high-growth markets. For example, we have developed extensions of our Gen-S platforms (Rapid™ MEM) to address opportunities in memory assembly, in particular for NAND Flash storage.

Our leading technology for wedge bonder equipment uses ribbon or heavy wire for different applications such as power electronics, automotive and semiconductor applications. The advanced interconnect capabilities of PowerFusion<sup>PS</sup> improve the processing of high-density power packages, due to an expanded bondable area, wider leadframe capability, indexing accuracy and teach mode. In all cases, we are making a concerted effort to develop commonality of subsystems and design practices, in order to improve

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performance and design efficiencies. We believe this will benefit us as it increases synergies between the various engineering product groups. Furthermore, we continually research adjacent market segments where our technologies could be used. Although many of these initiatives are in the early stages of development, some have already yielded results such as the Asterion™ hybrid wedge bonder which is built on an enhanced architecture that includes an expanded bond area, new robust pattern recognition capabilities and extremely tight process controls. Another example of our developing equipment for high-growth niche markets is our AT Premier PLUS. This machine utilizes a modified wire bonding process to mechanically place bumps on devices in a wafer format, for variants of the flip chip assembly process. Typical applications include complementary metal-oxide semiconductor (“CMOS”) image sensors, surface acoustical wave (“SAW”) filters and high brightness LEDs. These applications are commonly used in most, if not all, smartphones available in the market. We also have expanded the use of AT Premier PLUS for wafer level wire bonding for micro-electro-mechanical systems (“MEMS”) and other sensors.

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

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

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

**Products and Services**

The following tables reflect net revenue by business segment for the three months ended December 29, 2018 and December 30, 2017:

	Three months ended			
	December 29, 2018		December 30, 2017	
(dollar amounts in thousands)	Net revenues	% of total net revenue	Net revenues	% of total net revenue
Capital Equipment	\$ 115,938	73.7 %	\$ 171,603	80.3 %
APS	41,270	26.3 %	42,088	19.7 %
	\$ 157,208	100.0 %	\$ 213,691	100.0 %

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## RESULTS OF OPERATIONS

The following tables reflect our income from operations for the three months ended December 29, 2018 and December 30, 2017:

(dollar amounts in thousands)	Three months ended		\$ Change	% Change
	December 2018	December 30, 2017		
Net revenue	\$ 157,208	\$ 213,691	\$(56,483)	(26.4)%
Cost of sales	82,409	116,489	(34,080)	(29.3)%
Gross profit	74,799	97,202	(22,403)	(23.0)%
Selling, general and administrative	30,441	27,793	2,648	9.5%
Research and development	29,803	30,250	(447)	(1.5)%
Operating expenses	60,244	58,043	2,201	3.8%
Income from operations	\$ 14,555	\$ 39,159	\$(24,604)	(62.8)%

Our net revenues for the three months ended December 29, 2018 decreased as compared to our net revenues for the three months ended December 30, 2017. The decrease in net revenue was primarily due to lower volume as a result of lower demand from our customers, particularly in our Capital Equipment segment. The lower volume was primarily due to lower market demand in consumer, enterprise, automotive and industrial applications.

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

## Net Revenue

Approximately 93.4% and 85.7% of our net revenue for the three months ended December 29, 2018 and December 30, 2017, respectively, was for shipments to customer locations outside of the U.S., primarily in the Asia/Pacific region. In the Asia/Pacific region, our customer base is also becoming more geographically concentrated as a result of economic and industry conditions. Approximately 37.7% and 40.3% of our net revenue for the three months ended December 29, 2018 and December 30, 2017, respectively, was for shipments to customers located in China.

The following tables reflect net revenue by business segment for the three months ended December 29, 2018 and December 30, 2017:

(dollar amounts in thousands)	Three months ended		\$ Change	% Change
	December 2018	December 30, 2017		
Capital Equipment	\$ 115,938	\$ 171,603	\$(55,665)	(32.4)%
APS	41,270	42,088	(818)	(1.9)%
Total net revenue	\$ 157,208	\$ 213,691	\$(56,483)	(26.4)%

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## Capital Equipment

The following table reflects the components of Capital Equipment net revenue change between the three months ended December 29, 2018 and December 30, 2017:

December 29, 2018 vs.

December 30, 2017

Three months ended

(in thousands)	Price	Volume	\$ Change
Capital Equipment	\$(2,118)	\$(53,547)	\$(55,665)

For the three months ended December 29, 2018, the lower Capital Equipment net revenue as compared to the prior year period was primarily due to lower volume and unfavorable price variance. The lower sales volume was primarily due to lower market demand in consumer, enterprise, automotive and industrial applications. The unfavorable price variance was primarily due to competition in power module, power discrete and battery application.

## APS

The following table reflects the components of APS net revenue change between the three months ended December 29, 2018 and December 30, 2017:

December 29, 2018 vs.

December 30, 2017

Three months ended

(in thousands)	Price	Volume	\$ Change
APS	\$(3,296)	\$ 2,478	\$(818 )

For the three months ended December 29, 2018, the lower Aftermarket Product and Services net revenue as compared to prior year period was primarily due to price reduction in consumable business as a result of competition and partially offset by higher contribution from capillaries, spares and wedge bonder consumables.

## Gross Profit

The following tables reflect gross profit by reportable segment for the three months ended December 29, 2018 and December 30, 2017:

(dollar amounts in thousands)	Three months ended		\$ Change	% Change
	December 29, 2018	December 30, 2017		
Capital Equipment	\$50,931	\$ 74,584	\$(23,653)	(31.7)%
APS	23,868	22,618	1,250	5.5 %
Total gross profit	\$74,799	\$ 97,202	\$(22,403)	(23.0)%

The following tables reflect gross profit as a percentage of net revenue by reportable segments for the three months ended December 29, 2018 and December 30, 2017:

	Three months ended		Basis Point Change
	December 29, 2018	December 30, 2017	
Capital Equipment	43.9%	43.5 %	40
APS	57.8%	53.7 %	410
Total gross margin	47.6%	45.5 %	210

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## Capital Equipment

The following table reflects the components of Capital Equipment gross profit change between the three months ended December 29, 2018 and December 30, 2017:

December 29, 2018 vs. December 30,  
2017

Three months ended

(in thousands)	Price	Cost	Volume	\$ Change
Capital Equipment	\$(2,118)	\$1,746	\$(23,281)	\$(23,653)

For the three months ended December 29, 2018, the lower Capital Equipment gross profit as compared to the prior year period was primarily due to lower volume and unfavorable price variance. The lower sales volume was primarily due to lower market demand in consumer, enterprise, automotive and industrial applications. The unfavorable price variance was primarily due to competition in power module, power discrete and battery application. The lower volume and unfavorable price variance were partially offset by lower cost as a result of lower manufacturing activities.

## APS

The following table reflects the components of APS gross profit change between the three months ended December 29, 2018 and December 30, 2017:

December 29, 2018 vs.

December 30, 2017

Three months ended

(in thousands)	Price	Cost	Volume	\$ Change
APS	\$(3,296)	\$916	\$3,630	\$1,250

For the three months ended December 29, 2018, the higher Aftermarket Product and Services gross profit as compared to prior year period was primarily due to higher contribution from capillaries, spares, wedge bonder consumables, and lower cost, and partially offset by price reduction in consumable business as a result of competition.

## Operating Expenses

The following tables reflect operating expenses as a percentage of net revenue for the three months ended December 29, 2018 and December 30, 2017:

	Three months ended		Basis point change	
	December 29, 2018	December 30, 2017		
Selling, general & administrative	19.4 %	13.0 %	640	
Research & development	19.0 %	14.2 %	480	
Total	38.4 %	27.2 %	1,120	

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

For the three months ended December 29, 2018, higher SG&A expenses as compared to prior year period was primarily due to \$2.8 million higher staff costs, and \$1.6 million net unfavorable variance in foreign exchange due to weakening of US dollar against foreign currencies. These are partially offset by \$1.3 million lower severance expense and \$0.7 million net favorable change in doubtful debt accounts as we were able to collect balances from a customer that were previously reserved.

## Research and Development (“R&amp;D”)

For the three months ended December 29, 2018, the R&D expenses have remained generally consistent compared to prior period.

## Interest Income and Expense

The following tables reflect interest income and interest expense for the three months ended December 29, 2018 and December 30, 2017:



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(dollar amounts in thousands)	Three months ended		\$ Change	% Change
	December 2018	December 2017		
Interest income	\$3,826	\$ 1,975	\$ 1,851	93.7 %
Interest expense	\$(251 )	\$( 266 )	\$ 15	(5.6)