

KULICKE & SOFFA INDUSTRIES INC
Form 10-Q
August 05, 2010

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 July 3, 2010

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
(State or other jurisdiction of incorporation)

23-1498399
(IRS Employer
Identification No.)

1005 VIRGINIA DRIVE, FORT WASHINGTON, PENNSYLVANIA 19034
(Address of principal executive offices and Zip Code)

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

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

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

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

Large accelerated filer ☐ Accelerated filer ☒ Non-accelerated filer ☐ Smaller reporting company ☐
(Do not check if a smaller reporting

company)

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

As of August 1, 2010, there were 70,428,342 shares of the Registrant's Common Stock, no par value, outstanding.

KULICKE AND SOFFA INDUSTRIES, INC.

FORM 10 – Q

July 3, 2010

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PART I. - FINANCIAL INFORMATION

Item 1. – Financial Statements

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

	As of October 3, 2009 *	July 3, 2010
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 144,560	\$ 162,840
Restricted cash	281	226
Accounts and notes receivable, net of allowance for doubtful accounts of \$1,378 and \$507, respectively	95,779	151,583
Inventories, net	41,489	68,833
Prepaid expenses and other current assets	11,566	13,956
Deferred income taxes	1,786	1,783
Total current assets	295,461	399,221
Property, plant and equipment, net	36,046	29,715
Goodwill	26,698	26,698
Intangible assets	48,656	41,497
Other assets	5,774	9,347
Total assets	\$ 412,635	\$ 506,478
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt	\$ 48,964	\$ -
Accounts payable	39,908	80,326
Accrued expenses and other current liabilities	32,576	38,197
Income taxes payable	1,612	894
Total current liabilities	123,060	119,417
Long-term debt	92,217	96,861
Deferred income taxes	16,282	16,864
Other liabilities	10,273	9,330
Total liabilities	241,832	242,472
Commitments and contingencies (Note 12)		
Shareholders' equity:		
Preferred stock, no par value:		
Authorized 5,000 shares; issued - none	-	-
Common stock, no par value:		
Authorized 200,000 shares; issued 74,370 and 75,203 respectively; outstanding 69,415 and 70,249 shares, respectively	413,092	420,370
Treasury stock, at cost, 4,954 shares	(46,356)	(46,356)

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Accumulated deficit	(197,812)	(111,731)
Accumulated other comprehensive income	1,879	1,723
Total shareholders' equity	170,803	264,006
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 412,635	\$ 506,478

* As adjusted for ASC No. 470.20, Debt, Debt With Conversion Options.

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

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

	Three months ended		Nine months ended	
	June 27, 2009*	July 3, 2010	June 27, 2009*	July 3, 2010
Net revenue	\$ 52,076	\$ 221,254	\$ 114,724	\$ 503,507
Cost of sales	32,407	122,070	73,082	280,178
Gross profit	19,669	99,184	41,642	223,329
Selling, general and administrative	21,887	34,446	79,575	90,142
Research and development	12,264	14,686	40,922	41,827
Impairment of goodwill	-	-	2,709	-
Total operating expenses	34,151	49,132	123,206	131,969
Income (loss) from operations	(14,482)	50,052	(81,564)	91,360
Interest income	75	104	1,022	290
Interest expense	(2,011)	(2,153)	(6,114)	(6,341)
Gain on extinguishment of debt	-	-	3,965	-
Income (loss) from continuing operations before tax	(16,418)	48,003	(82,691)	85,309
Benefit for income taxes from continuing operations	(1,156)	(1,080)	(13,314)	(772)
Income (loss) from continuing operations, net of tax	(15,262)	49,083	(69,377)	86,081
Income from discontinued operations, net of tax	-	-	22,727	-
Net income (loss)	\$ (15,262)	\$ 49,083	\$ (46,650)	\$ 86,081
Income (loss) per share from continuing operations:				
Basic	\$ (0.25)	\$ 0.69	\$ (1.14)	\$ 1.22
Diluted	\$ (0.25)	\$ 0.65	\$ (1.14)	\$ 1.15
Income per share from discontinued operations:				
Basic	\$ 0.00	\$ 0.00	\$ 0.37	\$ 0.00
Diluted	\$ 0.00	\$ 0.00	\$ 0.37	\$ 0.00
Net income (loss) per share:				
Basic	\$ (0.25)	\$ 0.69	\$ (0.77)	\$ 1.22
Diluted	\$ (0.25)	\$ 0.65	\$ (0.77)	\$ 1.15
Weighted average shares outstanding:				
Basic	61,220	70,131	60,908	69,873
Diluted	61,220	74,960	60,908	74,494

* As adjusted for ASC No. 470.20, Debt, Debt With Conversion Options.

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

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

	Nine months ended	
	June 27, 2009 *	July 3, 2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	\$ (46,650)	\$ 86,081
Less: Income from discontinued operations	22,727	-
Income (loss) from continuing operations	(69,377)	86,081
Adjustments to reconcile income (loss) from continuing operations to net cash provided by (used in) operating activities:		
Depreciation and amortization	15,608	13,258
Amortization of debt discount and debt issuance costs	4,895	5,226
Amortization of gain on sale of building	-	(137)
Equity-based compensation and employee benefits	1,418	5,422
Swiss pension plan curtailment	(1,446)	-
Provision for doubtful accounts	646	(481)
Provision for inventory valuation	8,670	797
Deferred taxes	(7,201)	(2,237)
Impairment of goodwill	2,709	-
Gain on extinguishment of debt	(3,965)	-
Changes in operating assets and liabilities, net of businesses acquired or sold:		
Accounts and notes receivable	28,394	(55,686)
Inventory	1,266	(28,179)
Prepaid expenses and other current assets	8,873	(2,597)
Accounts payable and accrued expenses	(7,092)	49,263
Income taxes payable	(26,672)	(721)
Other, net	2,029	(2,032)
Net cash provided by (used in) continuing operations	(41,245)	67,977
Net cash used in discontinued operations	(1,699)	(1,488)
Net cash provided by (used in) operating activities	(42,944)	66,489
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property, plant and equipment	(4,398)	(3,371)
Proceeds from sale of property, plant and equipment	-	3,958
Proceeds from sales of investments classified as available-for-sale	3,824	-
Purchase of Orthodyne	(87,039)	-
Changes in restricted cash, net	34,719	55
Net cash provided by (used in) continuing operations	(52,894)	642
Net cash provided by (used in) discontinued operations	149,857	(1,838)
Net cash provided by investing activities	96,963	(1,196)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments on borrowings	(84,358)	(48,964)
Net costs from sale of common stock	-	(29)
Proceeds from exercise of common stock options	54	1,872
Net cash provided by (used in) financing activities	(84,304)	(47,121)

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Effect of exchange rate changes on cash and cash equivalents	40	108
Changes in cash and cash equivalents	(30,245)	18,280
Cash and cash equivalents at beginning of period	144,932	144,560
Cash and cash equivalents at end of period	\$ 114,687	\$ 162,840
CASH PAID FOR:		
Interest	\$ 1,463	\$ 726
Income taxes	\$ 1,178	\$ 1,535

* As adjusted for ASC No. 470.20, Debt, Debt With Conversion Options.

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

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

NOTE 1 – BASIS OF PRESENTATION

Basis of Consolidation

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

As of October 4, 2009, the Company adopted Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) No. 470.20, Debt, Debt With Conversion Options (“ASC 470.20”), which requires issuers of convertible debt instruments that may be settled in cash upon conversion to initially record the liability and equity components of the convertible debt separately. The Company adopted the provisions of ASC 470.20 on a retrospective basis for all prior periods presented (see Note 7).

On September 29, 2008, the Company completed the sale of its Wire business for net proceeds of \$149.9 million to W.C. Heraeus GmbH (“Heraeus”). The financial results of the Wire business have been included in discontinued operations in the consolidated financial statements for all periods presented (see Note 2).

Fiscal Year

Each of the Company’s first three fiscal quarters ends 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 th. The fiscal 2009 quarters ended on December 27, 2008, March 28, 2009, June 27, 2009 and October 3, 2009. The fiscal 2010 quarters end on January 2, 2010, April 3, 2010, July 3, 2010 and October 2, 2010. In fiscal years consisting of 53 weeks, the fourth quarter will consist of 14 weeks.

Nature of Business

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

Basis of Presentation

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

could differ from those estimates. The interim consolidated financial statements are unaudited and, in management's opinion, include all adjustments (consisting only of normal and recurring adjustments) necessary for a fair presentation of results for these interim periods. The interim consolidated financial statements do not include all of the information and footnote disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles ("GAAP") and should be read in conjunction with the consolidated financial statements and notes thereto included in the Annual Report on Form 10-K for the year ended October 3, 2009, filed with the Securities and Exchange Commission, which includes Consolidated Balance Sheets as of September 27, 2008 and October 3, 2009, and the related Consolidated Statements of Operations, Cash Flows, and Changes in Shareholders' Equity for each of the years in the three-year period ended October 3, 2009. 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.

Vulnerability to Certain Concentrations

Financial instruments which may subject the Company to concentrations of credit risk as of October 3, 2009 and July 3, 2010 consisted mainly of trade receivables. The Company's trade receivables result primarily from the sale of semiconductor equipment, related accessories and replacement parts, and expendable tools to a relatively small number of large manufacturers in a highly concentrated industry. Write-offs of uncollectible accounts have historically not been significant; however, the Company closely monitors its customers' financial strength to reduce the risk of loss.

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

The Company is also exposed to foreign currency fluctuations that impact the remeasurement of the net monetary assets of those operations whose functional currencies differ from their respective local currencies, most notably in Israel, Malaysia, Singapore and Switzerland. In addition to operations in these countries, China and Japan have exposure related to the translation of their financial statements from their respective functional currencies to the U.S. dollar. 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.

Allowance for Doubtful Accounts

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

Inventories

Inventories are stated at the lower of cost (on a first-in first-out basis) or market value. The Company generally provides reserves for obsolete inventory and for inventory considered to be in excess of demand. In addition, the Company typically records as accrued expense inventory purchase commitments in excess of demand. Demand is generally defined as eighteen months forecasted consumption for non-Wedge bonder equipment, twenty-four months consumption for Wedge bonder equipment and all spare parts, and twelve months consumption for expendable tools. The forecasted demand is based upon internal projections, historical sales volumes, customer order activity and a review of consumable inventory levels at customers' facilities. The Company communicates forecasts of its future demand to its suppliers and adjusts commitments to those suppliers accordingly. If required, the Company reserves the difference between the carrying value of its inventory and the lower of cost or market value, based upon assumptions about future demand, market conditions and cyclical market changes. If actual market conditions are less favorable than projections, additional inventory reserves may be required.

Foreign Currency Translation

The majority of the Company's business is transacted in U.S. dollars; however, the functional currencies of some of the Company's subsidiaries are their local currencies. In accordance with ASC No. 830, Foreign Currency Matters ("ASC

830”), for a subsidiary of the Company that has a functional currency other than the U.S. dollar, gains and losses resulting from the translation of the functional currency into U.S. dollars for financial statement presentation are not included in determining net income (loss), but are accumulated in the cumulative translation adjustment account as a separate component of shareholders’ equity (accumulated other comprehensive income (loss)). Under ASC 830, cumulative translation adjustments are not adjusted for income taxes if they relate to indefinite investments in non-U.S. subsidiaries. Gains and losses resulting from foreign currency transactions are included in the determination of net income (loss).

Revenue Recognition

In accordance with ASC No. 605, Revenue Recognition, the Company recognizes revenue when persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, the price is fixed or determinable, the collectibility is reasonably assured, and it has completed its equipment installation obligations and received customer acceptance, when applicable, or is otherwise released from its installation or customer acceptance obligations. In the event terms of the sale provide for a customer acceptance period, revenue is recognized upon the expiration of the acceptance period or customer acceptance, whichever occurs first. The Company's standard terms are Ex Works (the Company's factory), with title transferring to its customer at the Company's loading dock or upon embarkation. The Company has a small percentage of sales with other terms, and revenue is recognized in accordance with the terms of the related customer purchase order. Revenue related to services is recognized upon performance of the services requested by a customer order. Revenue for extended maintenance service contracts with a term more than one month is recognized on a prorated straight-line basis over the term of the contract.

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

Income Taxes

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

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

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 includes the weighted average number of common shares and the dilutive effect of stock options, restricted stock and share unit awards and subordinated convertible notes outstanding during the period, when such instruments are dilutive.

In accordance with ASC No. 260.10.55, Earnings per Share - Implementation & Guidance ("ASC 260.10.55"), the Company treats all outstanding unvested share-based payment awards that contain rights to nonforfeitable dividends as participating in undistributed earnings with common shareholders. Awards of this nature are considered participating securities and the two-class method of computing basic and diluted EPS must be applied. The Company adopted ASC 260.10.55 on October 4, 2009 and, if necessary, will retrospectively adjust prior period earnings per share (see Note 11).

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 equity-based compensation in net income. The fair value of the Company's stock option awards are estimated using a Black-Scholes option valuation model. Compensation expense associated with market-based restricted stock is determined using a Monte-Carlo valuation model, and compensation expense associated with time-based and performance-based restricted stock is determined based on the number of shares granted and the fair value on the date of grant. In addition, the calculation of equity-based compensation costs requires that the Company estimate the number of awards that will be forfeited during the vesting period. The fair value of equity-based awards is amortized over the vesting period of the award and the Company elected to use the straight-line method for awards granted after the adoption of ASC 718.

NOTE 2 – DISCONTINUED OPERATIONS

On September 29, 2008, the Company completed the sale of certain assets and liabilities associated with its Wire business. The Company recognized net proceeds of \$149.9 million and a net gain of \$22.7 million, net of tax, during the nine months ended June 27, 2009. The Company did not recognize any income or loss from discontinued operations for the three months ended June 27, 2009, or the three and nine months ended July 3, 2010.

The following table reflects operating results of the Wire business discontinued operations for the nine months ended June 27, 2009:

(in thousands)	Nine months ended June 27, 2009
Net revenue	\$ -
Loss before tax	\$ (319)
Gain on sale of Wire business before tax	23,524
Income from discontinued operations before tax	23,205
Income tax expense	(478)
Income from discontinued operations, net of tax	\$ 22,727

As of October 2009, the Company settled all working capital adjustments with Heraeus. The following table reflects cash flows associated with the Company's discontinued operations for the nine months ended June 27, 2009 and July 3, 2010:

(in thousands)	Nine months ended	
	June 27, 2009	July 3, 2010
Cash flows provided by (used in):		
Operating activities: Wire business	\$ (319)	\$ -
Operating activities: Test business (sold in fiscal 2006) (1)	(1,380)	(1,488)
Investing activities: Wire business (2)	149,857	(1,838)
Net cash provided by (used in) discontinued operations	\$ 148,158	\$ (3,326)

(1) Represents facility-related costs associated with the Company's former Test operations.

(2) Fiscal 2010 amount represents final settlement of working capital adjustments with Heraeus.

NOTE 3 – RESTRUCTURING

On February 15, 2010, the Company committed to a plan to reduce its Irvine, California workforce by approximately 60 employees over a period of approximately 26 months. As part of this workforce reduction plan, substantially all of the Company's California-based wedge bonder manufacturing will be transferred to the Company's manufacturing facilities in Kuala Lumpur, Malaysia and Singapore. Certain administrative functions will also be transferred to Malaysia and Singapore. Management determined that it was in the best interests of the Company to reduce costs by migrating production and certain administrative functions from California to Asia.

With respect to the California-based wedge bonder transfer to Asia, the Company anticipates \$1.5 million of additional pre-tax expense, which will consist of \$1.1 million of severance and \$0.4 million of retention costs. The Company expects substantially all of this expense to be incurred by the end of the second fiscal quarter of 2011, with corresponding cash payments to be incurred beginning in the second fiscal quarter of 2011 and ending mid-fiscal 2013.

In March 2009, the Company committed to a plan to reduce its Israel-based workforce by approximately 155 employees by the end of fiscal 2010. As part of this workforce reduction plan, substantially all of the Company's Israel-based manufacturing has been transferred to the Company's manufacturing facilities in Suzhou, China. The Company expects to incur approximately \$0.2 million in additional severance costs and the amounts accrued are expected to be paid out during the fourth quarter of fiscal 2010. As part of the Israel-based manufacturing transition to China, in January 2010, the Company sold its facility in Israel and simultaneously entered into an agreement to leaseback a portion of the building for five years with an option to extend the lease. The Company realized a \$0.7 million gain on the sale which is being recognized over the five year lease term.

The following table reflects severance activity for all plans during the three and nine months ended June 27, 2009 and July 3, 2010:

(in thousands)	Three months ended		Nine months ended	
	June 27, 2009	July 3, 2010	June 27, 2009	July 3, 2010
Accrual for estimated severance and benefits, beginning of period	\$ 2,420	\$ 2,073	\$ -	\$ 2,413
Provision for severance and benefits:				
Equipment segment (1)	-	619	4,639	787
Provision for severance and benefits:				
Expendable Tools segment (1)	567	427	2,677	784
Provision for severance and benefits required by local law (2)	1,035	-	1,035	-
Payment of severance and benefits	(558)	(447)	(4,887)	(1,312)
Accrual for estimated severance and benefits, end of period (3)	\$ 3,464	\$ 2,672	\$ 3,464	\$ 2,672

(1) Provision for severance and benefits is the total amount expected to be incurred and is included within selling, general and administrative expenses on the Consolidated Statements of Operations.

(2) The Company had previously recorded approximately \$1.0 million related to severance and benefits as required by local law.

(3) Accrual for estimated severance as of June 27, 2009 and July 3, 2010 was included within accrued expenses and other current liabilities and other liabilities on the Consolidated Balance Sheet.

As business has recovered during fiscal 2010 from the fiscal 2009 global economic downturn and demand for the Company's products has increased, the Company increased its number of employees primarily related to manufacturing. The Company expects to continue to consolidate certain of its operations from the United States and other areas to Asia. As these consolidation efforts are finalized in the future, the Company will incur significant severance costs; however, it expects to realize future benefits from these consolidation plans.

NOTE 4 – GOODWILL AND INTANGIBLE ASSETS

Goodwill

Intangible assets classified as goodwill are not amortized. An annual impairment test of the Company's goodwill is performed during the fourth quarter of each fiscal year, which coincides with the completion of its annual forecasting process. The Company performed its annual impairment test in the fourth quarter of fiscal 2009 and no impairment charge was required. In addition, the Company tests for impairment between annual tests if a "triggering" event occurs that may have the effect of reducing the fair value of a reporting unit below its respective carrying value.

The following table reflects goodwill as of October 3, 2009 and July 3, 2010:

(in thousands)	Equipment segment		Expendable Tools segment		Total
As of October 3, 2009 and July 3, 2010:					
Beginning of period, Goodwill, gross	\$ 22,999	\$ 6,408	\$ 29,407		
Accumulated impairment losses (1)	(2,709)	-	(2,709)		

End of period, Goodwill, net	\$	20,290	\$	6,408	\$	26,698
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(1) During the nine months ended June 27, 2009, the Company recorded a \$2.7 million impairment charge related to its die bonder goodwill.

Intangible Assets

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

The following table reflects the intangible asset balances as of October 3, 2009 and July 3, 2010:

(in thousands)	As of		Average estimated useful lives (in years)
	October 3, 2009	July 3, 2010	
Wedge bonder developed technology	\$ 33,200	\$ 33,200	7.0
Accumulated amortization	(4,742)	(8,300)	
Net wedge bonder developed technology	28,458	24,900	
Wedge bonder customer relationships	19,300	19,300	5.0
Accumulated amortization	(3,860)	(6,755)	
Net wedge bonder customer relationships	15,440	12,545	
Wedge bonder trade name	4,600	4,600	8.0
Accumulated amortization	(575)	(1,006)	
Net wedge bonder trade name	4,025	3,594	
Wedge bonder other intangible assets	2,500	2,500	1.9
Accumulated amortization	(1,767)	(2,042)	
Net wedge bonder other intangible assets	733	458	
Net intangible assets	\$ 48,656	41,497	

The following table reflects estimated annual amortization expense related to intangible assets as of July 3, 2010:

(in thousands)	
Fiscal 2010 (remaining fiscal year)	\$ 2,386
Fiscal 2011	9,545
Fiscal 2012	9,178
Fiscal 2013	9,178
Fiscal 2014-2016	11,210
Total amortization expense	\$ 41,497

NOTE 5 – COMPREHENSIVE INCOME (LOSS)

The following table reflects the components of comprehensive income (loss) for the three and nine months ended June 27, 2009 and July 3, 2010:

(in thousands)	Three months ended		Nine months ended	
	June 27, 2009 *	July 3, 2010	June 27, 2009 *	July 3, 2010
Net income (loss) (1)	\$ (15,262)	\$ 49,083	\$ (46,650)	\$ 86,081
Gain (loss) from foreign currency translation adjustments	1,064	493	(377)	(162)
Unrealized gain on investments, net of taxes	14	-	18	-
Unrecognized actuarial net gain (loss), Switzerland pension plan, net of tax	(8)	(3)	160	6
Switzerland pension plan curtailment	(388)		(388)	
Other comprehensive income (loss)	682	490	(587)	(156)
Comprehensive income (loss)	\$ (14,580)	\$ 49,573	\$ (47,237)	\$ 85,925

* As adjusted for ASC No. 470.20, Debt, Debt With Conversion Options.

(1) Net income (loss) includes continuing and discontinued operations.

The following table reflects accumulated other comprehensive income reflected on the Consolidated Balance Sheets as of October 3, 2009 and July 3, 2010:

(in thousands)	As of	
	October 3, 2009	July 3, 2010
Gain from foreign currency translation adjustments	\$ 746	\$ 584
Unrecognized actuarial net gain, Switzerland pension plan, net of taxes	1,133	1,139
Accumulated other comprehensive income	\$ 1,879	\$ 1,723

NOTE 6 – BALANCE SHEET ACCOUNTS

The following tables reflect significant balance sheet accounts as of October 3, 2009 and July 3, 2010:

(in thousands)	As of	
	October 3, 2009	July 3, 2010
Inventories, net:		
Raw materials and supplies	\$ 30,048	\$ 37,630
Work in process	10,788	25,366
Finished goods	13,170	15,410
	54,006	78,406
Inventory reserves	(12,517)	(9,573)
	\$ 41,489	\$ 68,833
Property, plant and equipment, net:		
Land (1)	\$ 2,735	\$ 2,618
Buildings and building improvements (1)	14,351	11,601
Leasehold improvements	11,695	9,481
Data processing and hardware equipment and software	21,822	22,229
Machinery and equipment	40,600	37,902
	91,203	83,831
Accumulated depreciation	(55,157)	(54,116)
	\$ 36,046	\$ 29,715
Accrued expenses and other current liabilities:		
Wages and benefits	\$ 10,423	\$ 14,949
Accrued customer obligations (2)	4,438	8,222
Severance (3)	3,264	3,330
Commissions and professional fees	2,072	3,271
Short-term facility accrual related to discontinued operations (Test)	1,839	1,880
Payable to Heraeus (4)	1,857	-
Other	8,683	6,545
	\$ 32,576	\$ 38,197

(1) During the nine months ended July 3, 2010, the Company sold its facility in Yokneam, Israel for \$4.5 million. Net proceeds of \$4.0 million were received and \$0.5 million is held in escrow for taxes. Simultaneous with the sale, the Company entered into an agreement to leaseback a portion of the building for five years with an option to extend the lease. The Company realized a \$0.7 million gain on the sale which is being recognized over the five year lease term.

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

(3) Total severance payable within the next twelve months includes the severance plans discussed in Note 3, and approximately \$0.8 million of other severance obligations which were not part of the Company's cost reduction plans.

(4) Fiscal 2009 amount related to certain open working capital adjustments with Heraeus, which were settled in fiscal 2010.

NOTE 7 – DEBT OBLIGATIONS

The following table reflects debt consisting of Convertible Subordinated Notes as of October 3, 2009 and July 3, 2010:

					(in thousands)	
		Payment Dates	Conversion	Maturity	As of	
Rate		of each year	Price	Date	October 3, 2009 *	July 3, 2010
1.000	%	June 30 and December 30	\$ 12.84	Redeemed June 30, 2010	\$ 48,964	\$ -
0.875	%	June 1 and December 1	\$ 14.36	June 1, 2012	110,000	110,000
Debt discount on 0.875% Convertible Subordinated Notes due June 2012					(17,783)	(13,139)
					\$ 141,181	\$ 96,861

* As adjusted for ASC No. 470.20, Debt, Debt With Conversion Options.

0.875% Convertible Subordinated Notes

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

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

As of October 4, 2009, the Company adopted ASC 470.20, which requires that issuers of convertible debt that may be settled in cash upon conversion record the liability and equity components of the convertible debt separately. The Company estimated the liability component of its 0.875% Convertible Subordinated Notes by assessing the fair value of debt instruments without an associated equity component issued by companies with similar credit ratings and terms at the time the Company's 0.875% Convertible Subordinated Notes were issued. The effective interest rate for non-convertible debt with similar credit ratings and terms was assumed to be 7.85%. The Company determined the fair value of the equity component of the embedded conversion option by deducting the fair value of the liability component from the initial proceeds of the convertible debt instrument. The debt discount will be amortized under the effective interest method from the original issue date. The Company determined the portion of issuance costs associated with the equity component of the 0.875% Convertible Subordinated Notes was \$1.0 million. The issuance costs are amortized under the effective interest method from the original issue date.

The liability component of the Company's 0.875% Convertible Subordinated Notes will continue to be classified as long-term debt and the equity component of the 0.875% Convertible Subordinated Notes is classified as common

stock on the Company's Consolidated Balance Sheets.

The following tables reflect the effect of the change due to ASC 470.20 on the Consolidated Statements of Operations for the three and nine months ended June 27, 2009:

(in thousands)	Three months ended		Effect of change
	June 27, 2009, as reported	June 27, 2009 as adjusted	
Interest expense	\$ 607	\$ 2,011	\$ 1,404
Loss from continuing operations before taxes	(15,014)	(16,418)	(1,404)
Benefit for income taxes	1,156	1,156	-
Loss from continuing operations	\$ (13,858)	\$ (15,262)	\$ (1,404)
Diluted loss per share from continuing operations	\$ (0.23)	\$ (0.25)	\$ (0.02)

(in thousands)	Nine months ended		Effect of change
	June 27, 2009, as reported	June 27, 2009 as adjusted	
Interest expense	\$ 1,981	\$ 6,114	\$ 4,133
Loss from continuing operations before taxes	(78,558)	(82,691)	(4,133)
Benefit for income taxes	13,314	13,314	-
Loss from continuing operations	\$ (65,244)	\$ (69,377)	\$ (4,133)
Diluted loss per share from continuing operations	\$ (1.07)	\$ (1.14)	\$ (0.07)

The following table reflects the effect of the change due to ASC 470.20 on the Consolidated Balance Sheet as of October 3, 2009:

(in thousands)	As of		Effect of change
	October 3, 2009, as reported	October 3, 2009, as adjusted	
Other assets (debt issuance costs)	\$ 6,215	\$ 5,774	\$ (441)
Total assets	413,076	412,635	(441)
Long-term debt	110,000	92,217	(17,783)
Total liabilities	259,615	241,832	(17,783)
Common stock	383,417	413,092	29,675
Accumulated deficit	(185,479)	(197,812)	(12,333)
Total shareholders' equity	153,461	170,803	17,342
Total liabilities and shareholders' equity	413,076	412,635	(441)

The following table reflects the effect of the change due to ASC 470.20 on the Consolidated Statement of Cash Flows for the nine months ended June 27, 2009:

(in thousands)	For the nine months ended		Effect of change
	June 27, 2009, as reported	June 27, 2009, as adjusted	
Net loss	\$ (42,517)	\$ (46,650)	\$ (4,133)
Loss from continuing operations	(65,244)	(69,377)	(4,133)
Amortization of debt discount and debt issuance costs	762	4,895	4,133
Net cash used in continuing operations	(41,245)	(41,245)	-

The following table reflects amortization expense related to issue costs from the Company's Convertible Subordinated Notes for the three and nine months ended June 27, 2009 and July 3, 2010:

(in thousands)	Three months ended		Nine months ended	
	June 27, 2009 *	July 3, 2010	June 27, 2009 *	July 3, 2010
Amortization expense related to issue costs	\$ 187	\$ 194	\$ 601	\$ 582

* As adjusted for ASC No. 470.20, Debt, Debt With Conversion Options.

The Company had no purchases of its Convertible Subordinated Notes for the three months ended June 27, 2009 and July 3, 2010 or the nine months ended July 3, 2010. The following table reflects the Company's open market purchases of its Convertible Subordinated Notes for the nine months ended June 27, 2009:

(in thousands)	Nine Months Ended June 27, 2009
0.5% Convertible Subordinated Notes (1):	
Face value purchased	\$ 43,050
Net cash	42,839
Deferred financing costs	18
Recognized gain, net of deferred financing costs	193
1.0% Convertible Subordinated Notes: (2)	
Face value purchased	\$ 16,036
Net cash	12,158
Deferred financing costs	106
Recognized gain, net of deferred financing costs	3,772
Gain on early extinguishment of debt	\$ 3,965

(1) Repurchase transactions occurred prior to redemption on November 30, 2008.

(2) Activity during the nine months ended June 27, 2009 reflects repurchases pursuant to a tender offer.

NOTE 8 – SHAREHOLDERS’ EQUITY AND EMPLOYEE BENEFIT PLAN

Common Stock

As of October 4, 2009, the Company adopted ASC 470.20 and accordingly common stock includes the equity component of the Company’s 0.875% Convertible Subordinated Notes (see Note 7).

In August 2009, the Company sold 8.0 million shares of its common stock in an underwritten public offering for net proceeds of \$38.7 million.

On October 3, 2008, the Company completed the acquisition of substantially all of the assets and assumption of certain liabilities of Orthodyne Electronics Corporation (“Orthodyne”). In connection with the Orthodyne acquisition, the Company issued 7.1 million common shares with an estimated value on that date of \$46.2 million and paid \$87.0 million in cash including capitalized acquisition costs.

Equity-Based Compensation

As of July 3, 2010, the Company had eight equity-based employee compensation plans (the “Employee Plans”) and three director compensation plans (the “Director Plans”) (collectively, the “Plans”). Under these Plans, stock options, performance-based share awards (collectively, “performance-based restricted stock”), time-based share awards (collectively, “time-based restricted stock”), market-based share awards (collectively, “market-based restricted stock”) or common stock have been granted at 100% of the market price of the Company’s common stock on the date of grant.

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

Equity-based compensation expense recognized in the Consolidated Statements of Operations for the three and nine months ended June 27, 2009 and July 3, 2010 was based upon awards ultimately expected to vest. In accordance with ASC 718, forfeitures have been estimated at the time of grant and were based upon historical experience. The Company reviews the forfeiture rates periodically and makes adjustments as necessary.

The following table reflects stock options, restricted stock and common stock granted during the three and nine months ended June 27, 2009 and July 3, 2010:

(number of shares in thousands)	Three months ended		Nine months ended	
	June 27, 2009	July 3, 2010	June 27, 2009	July 3, 2010
Market-based restricted stock	-	-	-	398
Performance-based restricted stock	-	-	403	-
Time-based restricted stock	-	-	825	784
Stock options	-	10	154	36
Common stock	43	24	149	89
Equity-based compensation in shares	43	34	1,531	1,307

The following table reflects equity-based compensation expense (reversal of expense), by type of award, included in the Consolidated Statements of Operations during the three and nine months ended June 27, 2009 and July 3, 2010:

(in thousands)	Three months ended		Nine months ended	
	June 27, 2009	July 3, 2010	June 27, 2009	July 3, 2010
Market-based restricted stock	\$ -	\$ 271	\$ -	\$ 659
Performance-based restricted stock	52	586	(1,485)	1,324
Time-based restricted stock	193	464	573	1,521
Stock options	411	108	1,254	378
Common stock	120	180	420	540
Equity-based compensation expense	\$ 776	\$ 1,609	\$ 762	\$ 4,422

As the global economy improved during fiscal 2010, the Company determined performance objectives for the performance-based restricted stock issued in fiscal 2007 and 2008 would improve. Accordingly, estimated attainment percentages increased and total compensation expense for the performance-based restricted stock also increased for the three and nine months ended July 3, 2010. During the prior year, in connection with the global economic decline during the nine months ended June 27, 2009, the Company determined performance objectives for the performance-based restricted stock issued in fiscal 2007 and 2008 would not be attained at the previous estimated levels. In accordance with ASC 718, by lowering estimated attainment percentages, total compensation expense for the performance-based restricted stock decreased and previously recorded compensation expense was reversed during fiscal 2009.

The following table reflects total equity-based compensation expense, which includes stock options, restricted stock and common stock, included in the Consolidated Statements of Operations during the three and nine months ended June 27, 2009 and July 3, 2010:

(in thousands)	Three months ended		Nine months ended	
	June 27, 2009	July 3, 2010	June 27, 2009	July 3, 2010
Cost of sales	\$ 40	\$ 44	\$ 39	\$ 140
Selling, general and administrative	499	1,231	248	3,218
Research and development	237	334	475	1,064
Equity-based compensation expense	\$ 776	\$ 1,609	\$ 762	\$ 4,422

The following table reflects the unrecognized equity-based compensation expense, by type of award, as of June 27, 2009 and July 3, 2010:

(dollar amounts in thousands)	June 27, 2009	As of July 3, 2010	Average remaining contractual life in years
Market-based restricted stock	\$ -	\$ 2,040	1.7
Performance-based restricted stock	384	1,091	0.7
Time-based restricted stock	1,737	4,069	1.9
Stock options	1,327	451	1.0
Unrecognized equity-based compensation expense	\$ 3,448	\$ 7,651	

401(k) Retirement Income Plan

The Company has a 401(k) retirement income plan (the “Plan”) for its employees. During fiscal 2009 and prior years, the Plan allowed for employee contributions and matching Company contributions in varying percentages, ranging from 50% to 175% up to 6% of the employee’s contributed amount based upon employee age and years of service. During the first quarter of fiscal 2010, the Plan was modified to allow for employee contributions and matching Company contributions up to 4% or 6% of the employee’s contributed amount based upon years of service.

The following table reflects the Company’s matching contributions to the 401(k) retirement income plan, which were made in the form of issued and contributed shares of Company common stock, during the three and nine months ended June 27, 2009 and July 3, 2010:

(in thousands)	Three months ended		Nine months ended	
	June 27, 2009	July 3, 2010	June 27, 2009	July 3, 2010
Number of common shares	45	53	318	153
Fair value based upon market price at date of distribution	\$ 164	\$ 402	\$ 656	\$ 1,000

NOTE 9 – INCOME TAXES

The following table reflects the benefit for income taxes and the effective tax rate from continuing operations for the nine months ended June 27, 2009 and July 3, 2010:

(dollar amounts in thousands)	Nine months ended	
	June 27, 2009 *	July 3, 2010
Income (loss) from continuing operations before taxes	\$ (82,691)	\$ 85,309
Benefit for income taxes	(13,314)	(772)
Income (loss) from continuing operations	\$ (69,377)	\$ 86,081
Effective tax rate	16.1%	-0.9%

* As adjusted for ASC No. 470.20, Debt, Debt With Conversion Options.

For the nine months ended July 3, 2010, the effective income tax rate related to continuing operations differed from the federal statutory rate primarily due to: decreases in the valuation allowance, Federal alternative minimum taxes, state income taxes, tax from foreign operations, impact of tax holidays, an increase in deferred taxes for un-remitted earnings and other U.S. current and deferred taxes. The decrease in valuation allowance includes a discrete income tax benefit recorded in the third quarter of fiscal 2010 for the reduction of the domestic valuation allowance based on a review of positive and negative evidence regarding the realization of these assets, including future projected domestic earnings.

For the nine months ended June 27, 2009, the effective income tax rate related to continuing operations differed from the federal statutory rate primarily due to: increases in the valuation allowance, state income taxes, tax from foreign operations, impact of tax holidays, decreases in deferred taxes for un-remitted earnings, and decreases in tax reserves. The increase in the valuation allowance is net of a discrete income tax benefit recorded for the reduction in the valuation allowance for a foreign subsidiary.

In October 2007, the tax authority in Israel issued the Company a preliminary assessment of income tax, withholding tax and interest of \$34.3 million (after adjusting for the impact of foreign currency fluctuations) for fiscal 2002 through 2004. The Company provided a non-current income tax liability for uncertain tax positions on its Consolidated Balance Sheet as of September 27, 2008 related to this assessment for fiscal years 2002 through 2007, as required under ASC 740. On December 24, 2008, the Company, through its Israel subsidiaries, entered into an agreement with the tax authority in Israel settling the tax dispute for approximately \$12.5 million, which represented withholding taxes, income taxes, and interest related to fiscal 2002 through 2004. The settlement of \$12.5 million was made net of a \$4.5 million reimbursement resulting in a net cash payment of \$7.8 million during the second quarter of fiscal 2009. Following the payment and settlement of the audit for fiscal 2002 through 2004, the tax authorities in Israel examined the fiscal years 2005 and 2006. In addition during fiscal 2009, the Company made a payment of approximately \$1.9 million related to income taxes and interest to settle the fiscal September 30, 2005 and 2006 assessment. As a result of the Israel tax settlements, the Company recognized a \$12.5 million benefit from income taxes for fiscal 2009. The \$12.5 million benefit was a result of reversing the liability for unrecognized tax benefits on the Consolidated Balance Sheet as of September 27, 2008 that was in excess of the \$14.4 million for which the matter was settled. The entire amount of the reversal impacted the Company's effective tax rate as indicated above.

The U.S. Internal Revenue Service ("IRS") audited the Company for the period ended September 30, 2006. The Company responded to various information requests from the IRS and the audit was closed in fiscal 2010 with no significant adjustments.

NOTE 10 - SEGMENT INFORMATION

The Company operates two segments: Equipment and Expendable Tools. The Equipment segment manufactures and markets a line of ball bonders, wedge bonders and die bonders. The Expendable Tools segment designs, manufactures, and markets consumable packaging materials for use on the Company's equipment as well as on competitors' equipment.

The following table reflects operating results by segment for the three and nine months ended June 27, 2009 and July 3, 2010:

(in thousands)	Three months ending		Nine months ending	
	June 27, 2009 *	July 3, 2010	June 27, 2009 *	July 3, 2010
Net revenue				
Equipment	\$ 37,544	\$ 202,185	\$ 78,180	\$ 450,135
Expendable Tools	14,532	19,069	36,544	53,372
Net revenue	52,076	221,254	114,724	503,507
Cost of sales				
Equipment	25,612	114,169	54,833	258,780
Expendable Tools	6,795	7,901	18,249	21,398
Cost of sales	32,407	122,070	73,082	280,178
Gross profit				
Equipment	11,932	88,016	23,347	191,355
Expendable Tools	7,737	11,168	18,295	31,974
Gross profit	19,669	99,184	41,642	223,329
Operating Expenses				
Equipment	28,793	41,248	102,507	109,546
Expendable Tools	5,358	7,884	17,990	22,423
Operating expenses	34,151	49,132	120,497	131,969
Impairment of goodwill				
Equipment	-	-	2,709	-
Income (loss) from operations				
Equipment	(16,861)	46,768	(81,869)	81,809
Expendable Tools	2,379	3,284	305	9,551
Income (loss) from operations	\$ (14,482)	\$ 50,052	\$ (81,564)	\$ 91,360

The following table reflects assets by segment as of October 3, 2009 and July 3, 2010:

(in thousands)	As of	
	October 3, 2009 *	July 3, 2010
Equipment	\$ 303,835	\$ 423,544
Expendable Tools	108,800	82,934
Segment assets	\$ 412,635	\$ 506,478

* As adjusted for ASC No. 470.20, Debt, Debt With Conversion Options.

NOTE 11 - EARNINGS PER SHARE

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

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

The Company's 0.875% Convertible Subordinated Notes would not result in the issuance of any dilutive shares, since the Notes are not convertible and the conversion option was not "in the money" as of June 27, 2009 or July 3, 2010. Accordingly, diluted EPS excludes the effect of the conversion of the 0.875% Convertible Subordinated Notes.

The following tables reflect reconciliations of the shares used in the basic and diluted net income (loss) per share computation for the three and nine months ended June 27, 2009 and July 3, 2010:

(in thousands, except per share data)	Three months ended			
	June 27, 2009 *		July 3, 2010	
	Basic	Diluted	Basic	Diluted
NUMERATOR:				
Income (loss) from continuing operations, net of tax	\$ (15,262)	\$ (15,262)	\$ 49,083	\$ 49,083
Less: income applicable to participating securities	-	- (1)	(523)	(523)
After-tax interest expense	-	- (1)	-	118
Income (loss) applicable to common shareholders	\$ (15,262)	\$ (15,262)	\$ 48,560	\$ 48,678
DENOMINATOR:				
Weighted average shares outstanding - Basic (3)	61,220	61,220	70,131	70,131
Stock options		- (1)		221
Performance-based restricted stock		- (1)		101
Time-based restricted stock		- (1)		357
Market-based restricted stock		n/a		463
1.000 % Convertible Subordinated Notes		- (1)		3,687
0.875 % Convertible Subordinated Notes		n/a		n/a
Weighted average shares outstanding - Diluted (2)		61,220		74,960
EPS:				
Income (loss) per share from continuing operations - Basic	\$ (0.25)	\$ (0.25)	\$ 0.69	\$ 0.69

Effect of dilutive shares	- (1)	\$ (0.04)
Income (loss) per share from continuing operations - Diluted	\$ (0.25)	\$ 0.65

(in thousands, except per share data)	Nine months ended			
	June 27, 2009 *		July 3, 2010	
	Basic	Diluted	Basic	Diluted
NUMERATOR:				
Income (loss) from continuing operations, net of tax	\$ (46,650)	\$ (46,650)	\$ 86,081	\$ 86,081
Less: income applicable to participating securities	-	- (1)	(922)	(922)
After-tax interest expense	-	- (1)	-	363
Income (loss) applicable to common shareholders	\$ (46,650)	\$ (46,650)	\$ 85,159	\$ 85,522
DENOMINATOR:				
Weighted average shares outstanding - Basic (3)	60,908	60,908	69,873	69,873
Stock options		- (1)		173
Performance-based restricted stock		- (1)		78
Time-based restricted stock		- (1)		220
Market-based restricted stock		n/a		379
1.000 % Convertible Subordinated Notes		- (1)		3,771
0.875 % Convertible Subordinated Notes		n/a		n/a
Weighted average shares outstanding - Diluted (2)		60,908		74,494
EPS:				
Income (loss) per share from continuing operations - Basic	\$ (0.77)	\$ (0.77)	\$ 1.22	\$ 1.22
Effect of dilutive shares		- (1)		\$ (0.07)
Income (loss) per share from continuing operations - Diluted		\$ (0.77)		\$ 1.15

* As adjusted for ASC No. 470.20, Debt, Debt With Conversion Options.

(1) Due to the Company's loss from continuing operations for the period, the effect of participating securities was excluded from the computation of basic and diluted EPS, and the conversion of Convertible Subordinated Notes and the related after-tax interest expense was not assumed since the effect would have been anti-dilutive. In addition, due to the Company's loss from continuing operations, potentially dilutive shares were not assumed since the effect would have been anti-dilutive.

(2) Three and nine months ended July 3, 2010, excludes 490 and 413 dilutive participating securities, respectively, as the income attributable to these shares was not included in EPS.

(3) Increase in weighted average shares outstanding primarily due to issuance of 7.1 million common shares on October 3, 2008 in connection with the acquisition of Orthodyne.

The following table reflects the number of potentially dilutive shares which were excluded from diluted EPS, as their inclusion was anti-dilutive, for the three and nine months ended June 27, 2009 and July 3, 2010:

(in thousands)	Three months ended		Nine months ended	
	June 27, 2009	July 3, 2010	June 27, 2009	July 3, 2010
Potentially dilutive shares related to:				
Stock options, out of the money	5,705	1,525	6,564	2,781
Performance-based and time-based restricted stock	198	-	17	
Convertible Subordinated Notes	3,813	-	4,916	-
	9,716	1,525	11,497	2,781

NOTE 12 – GUARANTOR OBLIGATIONS, COMMITMENTS, CONTINGENCIES AND CONCENTRATIONS

Guarantor Obligations

The following table reflects guarantees under standby letters of credit as of July 3, 2010:

Nature of guarantee	Term of guarantee	(in thousands) Maximum obligation under guarantee
Security of employee worker compensation benefit programs	Expires October 2010	\$ 95
Security for customs bond	Expires July 2011	100
		\$ 195

The Company has issued standby letters of credit for security of employee worker compensation benefit programs and a customs bond.

Additionally, on behalf of its wholly-owned subsidiary in Israel, in connection with the leaseback of the Company's facility in Yokneam, Israel, the Company has guaranteed rent and building management payments should its subsidiary fail to meet such obligations.

Warranty Expense

The Company's non-Wedge bonder equipment is generally shipped with a one-year warranty against manufacturing defects, and Wedge bonder equipment is generally shipped with a two-year warranty against manufacturing defects. The Company does not offer extended warranties in the normal course of its business. The Company establishes reserves for estimated warranty expense when revenue for the related equipment is recognized. The reserve for estimated warranty expense is based upon historical experience and management's estimate of future expenses.

The following table reflects product warranty activity included in accrued expenses for the three and nine months ended June 27, 2009 and July 3, 2010:

(in thousands)	Three months ended		Nine months ended	
	June 27, 2009	July 3, 2010	June 27, 2009	July 3, 2010
Reserve for product warranty, beginning of period	\$ 568	\$ 1,670	\$ 918	\$ 1,003

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Provision for product warranty		356		1,105		1,337		2,640
Product warranty costs paid		(417)		(572)		(1,748)		(1,440)
Reserve for product warranty, end of period	\$	507	\$	2,203	\$	507	\$	2,203

Concentrations

The following table reflects significant customer concentrations as a percent of net revenue for the nine months ended June 27, 2009 and July 3, 2010:

	Nine Months Ended	
	June 27, 2009	July 3, 2010
Advanced Semiconductor Engineering	12.3%	28.5%

The following table reflects significant customer concentrations as a percent of total accounts receivable as of October 3, 2009 and July 3, 2010:

	As of	
	October 3, 2009	July 3, 2010
Advanced Semiconductor Engineering	32.4%	13.8%
Siliconware Precision Industries Co., Ltd.	*	13.4%
Haoseng Industrial Co. Ltd.	*	10.0%
Amkor Technology Inc	11.6%	*

* Represents less than ten percent of total accounts receivable.

NOTE 13 – RELATED PARTY TRANSACTIONS

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

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

Forward-Looking Statements

In addition to historical information, this filing contains statements relating to future events or our future results. These statements are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended and Section 21E of the Securities Exchange Act of 1934, and are subject to the safe harbor provisions created by statute. Such forward-looking statements include, but are not limited to, statements that relate to our future revenue, product development, demand forecasts, competitiveness, operating expenses, cash flows, profitability, gross margins, and benefits expected as a result of (among other factors):

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

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

Forward-looking statements are based on current expectations and involve risks and uncertainties. Our future results could differ significantly from those expressed or implied by our forward-looking statements. These risks and uncertainties include, without limitation, those described below and under the heading “Risk Factors” in our Annual Report on Form 10-K for the year ended October 3, 2009 and our other reports and registration statements filed from time to time with the Securities and Exchange Commission. This discussion should be read in conjunction with the Consolidated Financial Statements and Notes included in this report, as well as our audited financial statements included in the Annual Report.

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

OVERVIEW

Introduction

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

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

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

Business Environment

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

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

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

Though the semiconductor industry’s cycle can be independent of the general economy, global economic conditions may have direct impact on demand for semiconductor units and ultimately demand for semiconductor capital equipment and expendable tools. During the first half of fiscal 2009, we saw a dramatic deterioration in the global economy; however, business conditions in the semiconductor industry began a recovery during the end of fiscal 2009, and demand for our core products has been improving during fiscal 2010. We expect demand to remain strong at least through our first fiscal quarter of 2011; however, our visibility into future demand beyond that time is generally limited and forecasting is difficult. There can be no assurances regarding levels of demand for our products, and we believe historic industry-wide volatility will persist.

To mitigate possible negative effects of this industry-wide volatility on our financial position, we have de-leveraged and strengthened our balance sheet. During fiscal 2009, we completed a public equity offering of 8.0 million common shares which raised \$38.7 million of net proceeds and reduced our debt by \$88.4 million. During fiscal 2010, we reduced our debt by an additional \$49.0 million. We ended our third quarter of fiscal 2010 with cash and cash equivalents totaling \$162.8 million, \$18.2 million higher than our previous fiscal year end. As of July 3, 2010, our total cash and cash equivalents exceeded the face value of our total debt by \$52.8 million. We believe a strong cash position allows us to continue making longer term investments in product development and in cost reduction activities throughout the semiconductor cycle.

Technology Leadership

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

process as on specific pieces of assembly equipment or expendable tools. In order to generate these improvements, we often work in close collaboration with customers, end users, and other industry members. In addition to producing technical advances, these collaborative development efforts strengthen customer relationships and enhance our reputation as a technology leader and solutions provider.

The rise of copper wire bonding technology as an alternative to gold wire is an example of our technology leadership and reflects the benefits of collaboration. Over the last several years, we led an informal working-group of customers and materials suppliers tasked with solving the technical challenges involved in substituting copper for gold in the ball bonding process. Working with customers and suppliers of equipment used upstream and downstream of the wire bonding process, we developed a robust, high-yielding production process that makes copper wire bonding commercially viable. Driven by the rising cost of gold, conversion to copper wire bonding for a wide range of packaging applications has become a major focus of many semiconductor manufacturers. We believe this conversion process has the potential to drive a significant wire bonder replacement cycle, since we believe a substantial portion of the industry's installed base is not suitable for copper bonding. Through our research and development efforts, we are well positioned with both leading products and the process expertise to capitalize on this potential replacement cycle.

We also maintain the technology leadership of our equipment by optimizing our products to serve high growth markets. For example, over the last two years we have developed extensions of our main ball bonding platforms to address opportunities in LED assembly. We estimate the annual growth rate for the LED device market to be approximately 30% annually through 2014, driven by the adoption of LED backlights for flat-screen displays as well as other LED applications in general lighting. In fiscal 2009, we launched two products optimized for these applications. These products represent our first product offerings specifically aimed at this high growth market, and since their introduction we have captured significant market share.

Our focus on technology leadership also extends to die bonding. In fiscal 2009, we began shipping a new die bonding platform, our state of the art iStackPS™ die bonder for advanced stacked die applications. iStack offers best-in-class throughput and accuracy, and we believe iStack is positioned to lead the market for its targeted applications. We continue to put iStack qualification machines in customers' factories. We sold our first machine in the second fiscal quarter of 2010 and expect to ramp shipments during our fourth fiscal quarter of 2010.

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

Products and Services

We offer a range of bonding equipment and expendable tools. The following table reflects net revenue by business segment for the three and nine months ended June 27, 2009 and July 3, 2010, respectively:

(dollar amounts in thousands)	Three months ended				Nine months ended			
	June 27, 2009		July 3, 2010		June 27, 2009		July 3, 2010	
	Net Revenues	% of Total Revenue	Net Revenues	% of Total Revenue	Net Revenues	% of Total Revenue	Net Revenues	% of Total Revenue
Equipment	\$ 37,544	72.1%	\$ 202,185	91.4%	\$ 78,180	68.1%	\$ 450,135	89.4%
Expendable Tools	14,532	27.9%	19,069	8.6%	36,544	31.9%	53,372	10.6%
	\$ 52,076	100.0%	\$ 221,254	100.0%	\$ 114,724	100.0%	\$ 503,507	100.0%

Equipment Segment

We manufacture and sell a line of ball bonders, heavy wire wedge bonders and die bonders that are sold to semiconductor device manufacturers, their subcontract assembly suppliers, other electronics manufacturers and automotive electronics suppliers. Ball bonders are used to connect very fine wires, typically made of gold or copper, between the bond pads of the semiconductor device, or die, and the leads on its package. Wedge bonders use either

aluminum wire or ribbon to perform the same function in packages that cannot use gold or copper wire because of either high electrical current requirements or other package reliability issues. Die bonders are used to attach a die to the substrate or lead frame which will house the semiconductor device. We believe our equipment offers competitive advantages by providing customers with high productivity/throughput and superior package quality/process control.

Our principal Equipment segment products include:

Business Unit	Product Name	Served Market
Ball bonders	IConn-Power Series	Advanced and ultra fine pitch applications using either gold or copper wire
	ConnX-Power Series	Cost performance, low pin count applications using either gold or copper wire
	ConnX-LED Power Series	Surface mount formatted LED applications
	ConnX-VLED Power Series	Vertical LED applications
	AT Premier	Stud bumping applications
Wedge bonders	3600 Plus	Power hybrid and automotive modules
	7200 Plus	Power semiconductors
	7600HD Semiconductor	Smaller power packages
Die bonders	iStack Power Series	Advanced stacked die and ball grid array applications

Ball Bonders

Automatic ball bonders represent the largest portion of our semiconductor equipment business. Our main product platform for ball bonding is the Power Series — a family of assembly equipment that is setting new standards for performance, productivity, upgradeability, and ease of use. Our Power Series consists of our IConnPS high-performance ball bonders and our ConnX PS cost-performance ball bonders, both of which can be configured for either gold or copper wire. In addition, targeted specifically at the fast growing LED market, the Power Series includes our ConnX-LED PS TM and our ConnX-VLED PS TM.

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

Heavy Wire Wedge Bonders

We are the leaders in the design and manufacture of heavy wire wedge bonders for the power semiconductor and automotive power module markets. Wedge bonders use either aluminum wire or aluminum ribbon to connect semiconductor chips in power packages, power hybrids and automotive modules for products such as motor control modules or inverters for hybrid cars. Wedge bonders also attach large-diameter wire or ribbon to semiconductors when high electrical current requirements or reliability constraints do not allow the use of ball bonds.

Our portfolio of wedge bonding products includes:

- The 3600 Plus wedge bonders: high speed, high accuracy wire bonders designed for power modules, automotive packages and other large wire multi-chip module applications.
- The 7200 Plus wedge bonders: dual head wedge bonder designed specifically for power semiconductor applications.
 - The 7600HD Semiconductor wedge bonders: wedge bonder targeted for small power packages and also intended to extend our product portfolio to include reel-to-reel type applications.

We have also developed an advanced process for bonding power packages that utilizes ribbon rather than a round wire. Sold under the trade name PowerRibbon®, the process offers performance advantages over traditional round wire and is gaining acceptance in the market for power packages and automotive high current applications. This process is available on new wedge bonders or as a retrofit kit for some existing wedge bonders. We expect our ribbon bonding capability will open new packaging opportunities for our customers.

Die Bonders

Our die bonder, the iStack, was launched in March of 2009. We continue to put iStack qualification machines in customers' factories. We sold our first machine in the second fiscal quarter of 2010 and expect to ramp shipments during our fourth fiscal quarter of 2010.

iStack is targeted at stacked die and high end ball grid array (BGA) applications. In these applications, we expect up to 40% productivity increases compared to current generation machines. In addition, iStack has demonstrated superior accuracy and process control. We believe iStack represents a significant revenue growth opportunity for us.

Other Equipment Products and Services

We also sell other equipment products including manual wire bonders and stud bump bonders.

In addition, we offer spare parts, equipment repair, training services, and upgrades for our equipment through our Support Services business unit.

Expendable Tools Segment

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

- **Capillaries:** expendable tools used in ball bonders. Made of ceramic, a capillary guides the wire during the ball bonding process. Its features help control the bonding process. We design and build capillaries suitable for a broad range of applications, including for use on our competitors' equipment.
- **Bonding wedges:** expendable tools used in wedge bonders. Like capillaries, their specific features are tailored to specific applications. We design and build bonding wedges for use both in our own equipment and in our competitors' equipment.
- **Saw blades:** expendable tools used by semiconductor manufacturers to cut silicon wafers into individual semiconductor die and to cut semiconductor devices that have been molded in a matrix configuration into individual units.

Presentation of non-GAAP measures

Adjusted net income (loss), adjusted diluted net income (loss) per share and adjusted return on invested capital ("ROIC") are supplemental measures of our performance that are not presented in accordance with U.S. generally accepted accounting principles ("GAAP"). We believe certain non-GAAP measures provide investors with an additional, useful perspective on our performance as seen through the eyes of management. We use non-GAAP measures along with GAAP financial results for: analyzing the performance of our businesses; strategic and tactical decision making; and determining compensation. We do not consider non-GAAP measures to be a substitute for, or superior to, financial results presented in accordance with GAAP. All of the non-GAAP measures included herein are reconciled to the most directly comparable GAAP results in the financial statements. These non-GAAP measures may be calculated differently from non-GAAP measures used by other companies. In addition, these non-GAAP measures are not based on a comprehensive set of accounting rules or principles and some of the adjustments reflect the exclusion of items that are recurring and will be reflected in the our GAAP financial results for the foreseeable future.

We exclude the following from our GAAP results in presenting non-GAAP measures:

Equity-based compensation expenses

We recognize the fair value of our equity-based compensation in expense. Equity-based compensation consists of common stock, stock options and performance-based, market-based and time-based restricted stock granted under our equity compensation plans. Equity-based compensation is a non-cash expense that can vary significantly in amount from period to period.

Other

We believe the exclusion of certain other non-GAAP amounts allows for improved comparisons of our results to both prior periods and other companies. We exclude the following other items from non-GAAP measures:

- Amortization of intangibles
- Restructuring
- Impairment of goodwill
- Switzerland pension plan curtailment
- Gain on extinguishment of debt
- Non-cash interest expense
- Net tax settlement expense (benefit) and other tax adjustments

Tax Adjustment

Non-GAAP measures are tax adjusted using the GAAP tax rate associated with each quarterly period. The tax rate is calculated by dividing each quarter's GAAP tax expense (benefit), adjusted for discrete quarterly items, by the GAAP operating income (loss) for that quarter. Non-GAAP year-to-date measures are calculated by summing the associated quarterly non-GAAP measures, without further tax adjustments.

The specific non-GAAP measures included herein are: adjusted gross profit, adjusted gross margin, adjusted net income (loss), adjusted net margin, and adjusted earnings per share ("EPS"). We calculate these measures as follows:

Adjusted Gross Profit and Adjusted Gross Margin

Our non-GAAP adjusted gross profit and adjusted gross margin exclude the effects of equity-based compensation expense recorded within cost of sales.

Adjusted Net Income (Loss), Adjusted Net Margin and Adjusted EPS

Our non-GAAP adjusted net income (loss), adjusted net margin and adjusted EPS exclude equity-based compensation; amortization of intangibles; restructuring; impairment of goodwill; Switzerland pension plan curtailment; gain on extinguishment of debt; non-cash interest expense; net tax settlement expense (benefit); and related tax effects on non-GAAP adjustments.

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The following table reflects certain GAAP results and the corresponding non-GAAP financial measures for the three and nine months ending June 27, 2009 and July 3, 2010:

Unaudited (in thousands, except per share amounts)	Three months ended		Nine months ended	
	June 27, 2009 *	July 3, 2010	June 27, 2009 *	July 3, 2010
Gross profit (GAAP results)	\$ 19,669	\$ 99,184	\$ 41,642	\$ 223,329
- Equity-based compensation expense	40	44	39	140
Gross profit (Non-GAAP measures)	\$ 19,709	\$ 99,228	\$ 41,681	\$ 223,469
Income (loss) from continuing operations (GAAP results)	\$ (15,262)	\$ 49,083	\$ (69,377)	\$ 86,081
- Equity-based compensation expense	776	1,609	762	4,422
- Amortization of intangibles	2,783	2,386	8,311	7,160
- Restructuring	567	1,045	9,730	1,650
- Impairment of goodwill	-	-	2,709	-
- Switzerland pension plan curtailment	(1,446)	-	(1,446)	-
- Non-cash interest expense	1,648	1,768	4,918	5,235
- Gain on extinguishment of debt	-	-	(3,965)	-
- Net tax settlement benefit and other tax adjustments	(1,047)	-	(10,989)	-
- Tax effect of non-GAAP adjustments	(29)	(248)	(186)	(498)
Income (loss) from continuing operations (Non-GAAP measures)	\$ (12,010)	\$ 55,643	\$ (59,533)	\$ 104,050
Weighted average shares outstanding (GAAP & Non-GAAP)				
Basic	61,220	70,131	60,908	69,873
Diluted	61,220	74,960	60,908	74,494
Income (loss) per share from continuing operations (GAAP results)				
Basic	\$ (0.25)	\$ 0.69	\$ (1.14)	\$ 1.22
Diluted	\$ (0.25)	\$ 0.65	\$ (1.14)	\$ 1.15
Adjustments to net income (loss) per share				
Basic	\$ 0.05	\$ 0.10	\$ 0.16	\$ 0.26
Diluted	\$ 0.05	\$ 0.09	\$ 0.16	\$ 0.24
Income (loss) per share from continuing operations (Non-GAAP measures)				
Basic	\$ (0.20)	\$ 0.79	\$ (0.98)	\$ 1.48
Diluted	\$ (0.20)	\$ 0.74	\$ (0.98)	\$ 1.39

Certain prior year amounts have been retrospectively adjusted to comply with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") No. 470.20, Debt, Debt With Conversion Options ("ASC 470.20").

* As adjusted for ASC No. 470.20, Debt, Debt With Conversion Options.

The following table reflects our adjusted ROIC for the three months ended July 3, 2010:

Unaudited (dollar amounts in thousands)	Three months ended July 3, 2010	
Income from operations	\$	50,052
Adjustment: Depreciation and amortization (1)		4,336
Adjusted income from operations		54,388
Adjusted income from operations, annualized (2)	\$	217,552
Cash, cash equivalents, restricted cash and investments	\$	163,066
Adjustment: cash, cash equivalents, restricted cash and investments (3)		(88,066)
Adjusted cash, cash equivalents and investments	\$	75,000
Total assets excluding cash, cash equivalents, restricted cash and investments		343,412
Adjusted total assets		418,412
Total current liabilities	\$	119,417
Add: taxes payable (4)		1,552
Adjusted current liabilities		120,969
Adjusted net invested capital	\$	297,443
ROIC (2)		73.1%

(1) Depreciation and amortization are excluded from the ROIC calculation.

(2) ROIC calculated as adjusted income from operations, annualized through multiplying the current quarter's income from operations by 4, then divided by adjusted net invested capital. Adjusted income from operations does not, nor is it intended to, forecast the Company's future income from operations.

(3) Management estimates minimum cash requirement is \$75.0 million.

(4) Adjusted current liabilities includes tax liabilities classified as current in prior periods but reclassified to long term liabilities as a result of our adoption of ASC 740.10 during the first quarter of fiscal 2008.

RESULTS OF OPERATIONS

Net Revenue

Approximately 97.3% and 99.1% of our net revenue for the three months ended June 27, 2009 and July 3, 2010, respectively, was for shipments to customer locations outside of the United States, primarily in the Asia/Pacific region, and we expect sales outside of the United States to continue to represent a substantial majority of our future

revenue. Likewise, approximately 95.5% and 98.6% of our net revenue for the nine months ended June 27, 2009 and July 3, 2010, respectively, was for shipments to customer locations outside of the United States.

The following table reflects net revenue by business segment for the three and nine months ended June 27, 2009 and July 3, 2010:

(dollar amounts in thousands)	Three months ended				Nine months ended			
	June 27, 2009	July 3, 2010	\$ Change	% Change	June 27, 2009	July 3, 2010	\$ Change	% Change
Equipment	\$ 37,544	\$ 202,185	\$ 164,641	438.5%	\$ 78,180	\$ 450,135	\$ 371,955	475.8%
Expendable Tools	14,532	19,069	4,537	31.2%	36,544	53,372	16,828	46.0%
	\$ 52,076	\$ 221,254	\$ 169,178	324.9%	\$ 114,724	\$ 503,507	\$ 388,783	338.9%

Equipment

The following table reflects the components of Equipment net revenue change between the three and nine months ended June 27, 2009 and July 3, 2010:

(in thousands)	June 27, 2009 vs. July 3, 2010					
	Three months ended			Nine months ended		
	Price	Volume	\$ Change	Price	Volume	\$ Change
Equipment	\$ 122	\$ 164,519	\$ 164,641	\$ 302	\$ 371,653	\$ 371,955

For the three months ended July 3, 2010, higher Equipment net revenue was due to a 504.5% increase in volume for ball bonders, 418.8% increase in volume for wedge bonders and 77.5% increase in revenue for Support Services. The large volume increases for the three months ended July 3, 2010 were due to a strong recovery from the prior year's global economic downturn. The ongoing higher semiconductor unit demand during the recovery increased capacity utilization rates of our customers, which in turn increased demand for capital equipment. In addition, customer investment in copper bonding capability has driven a significant proportion of our ball bonder business.

For the nine months ended July 3, 2010, higher Equipment net revenue was due to a 920.1% increase in volume for ball bonders, 203.4% increase in volume for wedge bonders, 67.8% increase in revenue for Support Services. The large volume increase was due to the global downturn during the nine months ended June 27, 2009 and a strong recovery for the nine months ended July 3, 2010. The higher semiconductor unit demand during the recovery increased capacity utilization rates of our customers, which in turn increased demand for capital equipment. In addition, customer investment in copper bonding capability has driven a significant proportion of our ball bonder business.

Expendable Tools

The following table reflects the components of Expendable Tools net revenue change between the three and nine months ended June 27, 2009 and July 3, 2010:

(in thousands)	June 27, 2009 vs. July 3, 2010					
	Three months ended			Nine months ended		
	Price	Volume	\$ Change	Price	Volume	\$ Change
Expendable Tools	\$ 50	\$ 4,487	\$ 4,537	\$ (281)	\$ 17,109	\$ 16,828

Net revenue for the three months ended July 3, 2010 was higher due to volume increases in all our Expendable Tools businesses. Since Expendable Tools products are consumables used for the connections of IC units, as overall consumer demand for electronic equipment has increased, so has the demand for IC units. As a result, volume has

increased for our Expendable Tools. For our non-wedge bonder tools, which consist primarily of capillaries and blades, volume increased 32.4%.

Net revenue for the nine months ended July 3, 2010 was higher due to volume increases in all our Expendable Tools businesses. For our non-wedge bonder tools, which consist primarily of capillaries and blades, volume increased 51.8%.

Gross Profit

The following table reflects gross profit by business segment for the three and nine months ended June 27, 2009 and July 3, 2010:

(dollar amounts in thousands)	Three months ended				Nine months ended			
	June 27, 2009	July 3, 2010	\$ Change	% Change	June 27, 2009	July 3, 2010	\$ Change	% Change
Equipment	\$ 11,932	\$ 88,016	\$ 76,084	637.6%	\$ 23,347	\$ 191,355	\$ 168,008	719.6%
Expendable Tools	7,737	11,168	3,431	44.3%	18,295	31,974	13,679	74.8%
Total	\$ 19,669	\$ 99,184	\$ 79,515	404.3%	\$ 41,642	\$ 223,329	\$ 181,687	436.3%
Total gross profit	37.8%	44.8%			36.3%	44.4%		

The following table reflects gross profit as a percentage of net revenue by business segment for the three and nine months ended June 27, 2009 and July 3, 2010.

	Three months ended			Basis Point Change	Nine months ended			Basis Point Change
	June 27, 2009	July 3, 2010			June 27, 2009	July 3, 2010		
Equipment	31.8%	43.5%		1,170.0	29.9%	42.5%		1,260.0
Expendable Tools	53.2%	58.6%		540.0	50.1%	59.9%		980.0
Total	37.8%	44.8%		700.0	36.3%	44.4%		810.0

Equipment

The following table reflects the components of Equipment gross profit change between the three and nine months ended June 27, 2009 and July 3, 2010:

June 27, 2009 vs. July 3, 2010								
(in thousands)	Three months ended				Nine months ended			
	Price	Cost	Volume	\$ Change	Price	Cost	Volume	\$ Change
Equipment	\$ 122	\$ (598)	\$ 76,560	\$ 76,084	\$ 302	\$ (87)	\$ 167,793	\$ 168,008

For the three months ended July 3, 2010, gross profit increased due to significant volume increases for ball bonders, wedge bonders and Support Services. The volume increases were due to a strong recovery from the prior year's global economic downturn. The ongoing higher semiconductor unit demand during the recovery increased capacity utilization rates of our customers, which in turn increased demand for capital equipment.

For the nine months ended July 3, 2010, gross profit increased significantly due to volume increases for ball bonders, wedge bonders and Support Services. The volume increases were due to the global downturn during the nine months ended June 27, 2009 and a strong recovery during the current year period. The higher semiconductor unit demand during the recovery increased capacity utilization rates of our customers, which in turn increased demand for capital

equipment.

Expendable Tools

The following table reflects the components of Expendable Tools gross profit change between the three and nine months ended June 27, 2009 and July 3, 2010:

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June 27, 2009 vs. July 3, 2010

(in thousands)	Price	Three months ended			Price	Nine months ended		
		Cost	Volume	\$ Change		Cost	Volume	\$ Change
Expendable Tools	\$ 50	\$ 1,140	\$ 2,241	\$ 3,431	\$ (281)	\$ 5,857	\$ 8,103	\$ 13,679

For the three months ended July 3, 2010, gross profit increased due to higher volume as well as lower costs. Volume for non-wedge bonder tools, which consist primarily of capillaries and blades, increased \$1.6 million while wedge bonder tools volume increased \$0.7 million. Gross profit increased due to lower costs from better absorption of fixed manufacturing costs as our volumes were higher. Consolidating our capillary tools manufacturing from Israel to China also contributed to our cost reductions and resulted in improved gross profit.

For the nine months ended July 3, 2010, gross profit increased due to higher volume and lower costs. Volume for non-wedge bonder tools, which consist primarily of capillaries and blades, increased \$5.7 million while wedge bonder tools volume increased \$2.3 million. Gross profit increased due to lower costs from better absorption of fixed manufacturing costs as our volumes were higher. Consolidating our capillary tools manufacturing from Israel to China also contributed to our cost reductions and resulted in improved gross profit.

Operating Expenses

The following table reflects operating expenses during the three and nine months ended June 27, 2009 and July 3, 2010:

(dollar amounts in thousands)	Three months ended				Nine months ended			
	June 27, 2009	July 3, 2010	\$ Change	% Change	June 27, 2009	July 3, 2010	\$ Change	% Change
Selling, general and administrative	\$ 21,887	\$ 34,446	\$ 12,559	57.4%	\$ 79,575	\$ 90,142	\$ 10,567	13.3%
Research and development	12,264	14,686	2,422	19.7%	40,922	41,827	905	2.2%
Impairment of goodwill	-	-	-	0.0%	2,709	-	(2,709)	-100.0%
Total	\$ 34,151	\$ 49,132	\$ 14,981	43.9%	\$ 123,206	\$ 131,969	\$ 8,763	7.1%

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

	Three months ended			Nine months ended		
	June 27, 2009	July 3, 2010	Basis Point Change	June 27, 2009	July 3, 2010	Basis Point Change
Selling, general and administrative	42.0%	15.6%	(2,643.1)	69.4%	17.9%	(5,149.7)
Research and development	23.6%	6.6%	(1,696.2)	35.7%	8.3%	(2,739.3)
Impairment of goodwill	0.0%	0.0%	-	2.4%	0.0%	(240.0)
Total	65.6%	22.2%	(4,339.4)	107.5%	26.2%	(8,129.0)

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

SG&A increased a net of \$12.6 million for the three months ended July 3, 2010 as compared to the same period last year primarily due to:

- \$5.6 million higher incentive compensation expense;
- \$3.6 million higher employee related costs associated with our significant business ramp during the current quarter;
 - \$2.0 million increase in sales commissions related to our higher net revenue for the current year period;
 - \$1.4 million one-time Switzerland pension plan curtailment which reduced our prior year’s SG&A expenses;
 - \$0.8 million higher factory transition costs related to moving additional production to Asia; and
- \$0.7 million higher equity-based compensation expense due to the higher estimated percentage attainment for the performance-based restricted stock.

The increases in SG&A expense were partially offset by a favorable \$1.1 million foreign currency variance.

SG&A increased a net of \$10.6 million during the nine months ended July 3, 2010 as compared to the same period a year ago primarily due to:

- \$11.5 million higher incentive compensation expense;
- \$4.2 million increase in sales commissions related to our higher net revenue for the current year period;
- \$3.0 million higher equity-based compensation expense due to the higher estimated percentage attainment for the performance-based restricted stock;
 - \$2.8 million higher factory transition costs related to moving additional production to Asia;
- \$1.7 million employee related costs associated with our significant business ramp during the current year period;
 - \$1.4 million Swiss pension fund curtailment gain which offset prior year’s SG&A expense; and
 - \$1.0 million favorable foreign currency variance.

These increases in SG&A were partially offset by:

- \$5.3 million lower severance costs related to prior year headcount reductions;
- \$2.6 million lower costs related to our discontinued Test facility operations;
- \$1.2 million lower intangible amortization and \$0.6 million lower depreciation;
- \$2.2 million lower legal expense incurred in the prior year period;
- \$1.6 million lower employee related costs due to headcount reductions during the prior year period; and
- \$1.4 million lower bad debt expense.

Research and development (“R&D”)

R&D expense increased a net of \$2.4 million for the three months ended July 3, 2010 as compared to the prior year period. Higher R&D expense was primarily related to spending for our Expendable Tools’ Israel technology center and higher incentive and equity compensation costs.

R&D expense increased a net of \$0.9 million for the nine months ended July 3, 2010 as compared to the prior year period. Higher R&D expense was primarily related to spending for our Expendable Tools’ Israel technology center, and higher incentive and equity compensation costs which were partially offset by lower Equipment spending as a result of the release of our latest die bonder product platform during the prior year.

Impairment of Goodwill

Due to the earlier than anticipated end of product life cycle for our EasyLine and SwissLine die bonders, during the nine months ended June 27, 2009, we recorded a non-cash impairment charge of \$2.7 million and reduced the value of the die bonder goodwill to zero.

Income (Loss) from Operations

The following table reflects business segment income (loss) from operations for the three months and nine months ended June 27, 2009 and July 3, 2010:

(dollar amounts in thousands)	Three months ended				Nine months ended			
	June 27, 2009	% of net revenue	July 3, 2010	% of net revenue	June 27, 2009	% of net revenue	July 3, 2010	% of net revenue
Equipment	\$ (16,861)	-44.9%	\$ 46,768	23.1%	\$ (81,869)	-104.7%	\$ 81,809	18.2%
Expendable Tools	2,379	16.4%	3,284	17.2%	305	0.8%	9,551	17.9%
Total	\$ (14,482)	-27.8%	\$ 50,052	22.6%	\$ (81,564)	-71.1%	\$ 91,360	18.1%

Equipment

For the three and nine months ended July 3, 2010, higher Equipment income from operations was due a significant increase in volume for ball bonders and wedge bonders. The large volume increases for the three and nine months ended July 3, 2010 were due to a strong recovery from the prior year's global economic downturn. The ongoing higher semiconductor unit demand during the recovery increased capacity utilization rates of our customers, which in turn increased demand for capital equipment. In addition, customer investment in copper bonding capability has increased as a significant proportion of our ball bonders are sold with copper bonding capability.

Expendable Tools

Our higher Expendable Tools segment income from operations for both the three and nine months ended July 3, 2010 was due to increased volume. Accordingly, gross profit increased due to lower costs from better absorption of fixed manufacturing costs as our volumes were higher. Consolidating our capillary tools manufacturing from Israel to China also contributed to our cost reductions and resulted in improved gross profit.

Interest Income and Expense

The following table reflects interest income and interest expense for the three and nine months ended June 27, 2009 and July 3, 2010:

(dollar amounts in thousands)	Three months ended				Nine months ended			
	June 27, 2009	July 3, 2010	\$ Change	% Change	June 27, 2009	July 3, 2010	\$ Change	% Change
Interest income	\$ 75	\$ 104	\$ 29	38.7%	\$ 1,022	\$ 290	\$ (732)	-71.6%
Interest expense	(363)	(385)	(22)	6.1%	(1,196)	(1,106)	90	-7.5%
Interest expense: non-cash	(1,648)	(1,768)	(120)	7.3%	(4,918)	(5,235)	(317)	6.4%

* As adjusted for ASC No. 470.20, Debt, Debt With Conversion Options.

The increase in interest income from the third quarter of fiscal 2009 to the third quarter of fiscal 2010 was due to higher invested cash balances. The decrease in interest income for the nine months ended July 3, 2010 as compared to the prior year period was due to lower rates of return on invested cash balances.

The decrease in cash interest expense from the third quarter of fiscal 2009 to the third quarter of fiscal 2010 was due to the retirement and redemption of our 0.5% Convertible Subordinated Notes and retirement of \$16.0 million (face value) of our 1.0% Convertible Subordinated Notes during the second quarter of fiscal 2009. Non-cash interest expense is the result of amortization of debt discount in accordance with ASC 470.20.

Gain on Extinguishment of Debt

There were no open market purchases of our Convertible Subordinated Notes during the three months ended June 27, 2009 and July 3, 2010 or during the nine months ended July 3, 2010. The following table reflects open market purchases of our Convertible Subordinated Notes for the nine months ended June 27, 2009:

(in thousands)	Nine Months Ended June 27, 2009	
0.5% Convertible Subordinated Notes (1):		
Face value purchased	\$	43,050
Net cash		42,839
Deferred financing costs		18
Recognized gain, net of deferred financing costs		193
1.0% Convertible Subordinated Notes: (2)		
Face value purchased	\$	16,036
Net cash		12,158
Deferred financing costs		106
Recognized gain, net of deferred financing costs		3,772
Gain on early extinguishment of debt	\$	3,965

(1) Repurchase transactions occurred prior to redemption on November 30, 2008.

(2) Activity during the nine months ended June 27, 2009 reflects repurchases pursuant to a tender offer.

Benefit for Income Taxes

The following table reflects the benefit for income taxes and the effective tax rate from continuing operations for the nine months ended June 27, 2009 and July 3, 2010:

(dollar amounts in thousands)	Nine months ended	
	June 27, 2009 *	July 3, 2010
Income (loss) from continuing operations before taxes	\$ (82,691)	\$ 85,309
Benefit for income taxes	(13,314)	(772)
Income (loss) from continuing operations	\$ (69,377)	\$ 86,081
Effective tax rate	16.1%	-0.9%

* As adjusted for ASC No. 470.20, Debt, Debt With Conversion Options.

For the nine months ended July 3, 2010, the effective income tax rate related to continuing operations differed from the federal statutory rate primarily due to: decreases in the valuation allowance, Federal alternative minimum taxes, state income taxes, tax from foreign operations, impact of tax holidays, an increase in deferred taxes for un-remitted earnings and other U.S. current and deferred taxes. The decrease in valuation allowance includes a discrete income tax benefit recorded in the third fiscal quarter of 2010 for the reduction of the domestic valuation allowance based on a review of positive and negative evidence regarding the realization of these assets, including future projected domestic earnings.

For the nine months ended June 27, 2009, the effective income tax rate related to continuing operations differed from the federal statutory rate primarily due to: increases in the valuation allowance, state income taxes, tax from foreign operations, impact of tax holidays, decreases in deferred taxes for un-remitted earnings, and decreases in tax reserves. The increase in the valuation allowance is net of a discrete income tax benefit recorded for the reduction in the valuation allowance for a foreign subsidiary.

In October 2007, the tax authority in Israel issued us a preliminary assessment of income tax, withholding tax and interest of \$34.3 million (after adjusting for the impact of foreign currency fluctuations) for fiscal 2002 through 2004. We provided a non-current income tax liability for uncertain tax positions on our Consolidated Balance Sheet as of September 27, 2008 related to this assessment for fiscal years 2002 through 2007, as required under ASC 740. On December 24, 2008, we, through our Israel subsidiaries, entered into an agreement with the tax authority in Israel settling the tax dispute for approximately \$12.5 million, which represented withholding taxes, income taxes, and interest related to fiscal 2002 through 2004. The settlement of \$12.5 million was made net of a \$4.5 million reimbursement resulting in a net cash payment of \$7.8 million during the second quarter of fiscal 2009. Following the payment and settlement of the audit for fiscal 2002 through 2004, the tax authorities in Israel examined the fiscal years 2005 and 2006. In addition during fiscal 2009, we made a payment of approximately \$1.9 million related to income taxes and interest to settle the fiscal September 30, 2005 and 2006 assessment. As a result of the Israel tax settlements, we recognized a \$12.5 million benefit from income taxes for fiscal 2009. The \$12.5 million benefit was a result of reversing the liability for unrecognized tax benefits on the Consolidated Balance Sheet as of September 27, 2008 that was in excess of the \$14.4 million for which the matter was settled. The entire amount of the reversal impacted our effective tax rate as indicated above.

The U.S. Internal Revenue Service ("IRS") audited us for the period ended September 30, 2006. We responded to various information requests from the IRS and the audit was closed in fiscal 2010 with no significant adjustments.

Income from Discontinued Operations, net of tax

On September 29, 2008, we completed the sale of our Wire business to W.C. Heraeus GmbH ("Heraeus"). The financial results of the Wire business have been included in discontinued operations in the consolidated financial statements for all periods presented.

We recognized net proceeds of \$149.9 million and a net gain of \$22.7 million, net of tax, during the nine months ended June 27, 2009. We did not recognize any income or loss from discontinued operations for the three months ended June 27, 2009 or the three and nine months ended July 3, 2010. The following table reflects operating results of our Wire business discontinued operations for the nine months ended June 27, 2009:

(in thousands)	Nine months ended June 27, 2009
Net revenue : Wire	\$ -
Loss before tax	\$ (319)
Gain on sale of Wire business before tax	23,524
Income from discontinued operations before tax	23,205
Income tax expense	(478)
Income from discontinued operations, net of tax	\$ 22,727

LIQUIDITY AND CAPITAL RESOURCES

The following table reflects cash, cash equivalents, and restricted cash as of October 3, 2009 and July 3, 2010:

(dollar amounts in thousands)	As of		\$ Change
	October 3, 2009	July 3, 2010	
Cash and cash equivalents	\$ 144,560	\$ 162,840	\$ 18,280
Restricted cash (1)	281	226	(55)
Total cash and cash equivalents	\$ 144,841	\$ 163,066	\$ 18,225
Percentage of total assets	35.1%	32.2%	

(1) Relates to foreign customs' requirements.

The following table reflects summary Consolidated Statement of Cash Flow information for the nine months ended June 27, 2009 and July 3, 2010:

(in thousands)	Nine months ended	
	June 27, 2009	July 3, 2010
Cash flows provided by (used in):		
Operating activities, continuing operations	\$ (41,245)	\$ 67,977
Operating activities, discontinued operations	(1,699)	(1,488)
Operating activities	(42,944)	66,489
Investing activities, continuing operations	(52,894)	642
Investing activities, discontinued operations	149,857	(1,838)
Investing activities	96,963	(1,196)
Financing activities	(84,304)	(47,121)
Effect of exchange rate on cash and cash equivalents	40	108
Changes in cash and cash equivalents	(30,245)	18,280
Cash and cash equivalents, beginning of period	144,932	144,560
Cash and cash equivalents, end of period	114,687	162,840
Restricted cash and short-term investments	-	226
Total cash and investments	\$ 114,687	\$ 163,066

Cash flow information: Nine months ended July 3, 2010

Continuing Operations

Net cash provided by operating activities was primarily the result of \$86.1 million net income from continuing operations plus \$22.0 million of non-cash adjustments. Cash provided by net income and non-cash adjustments was partially offset by \$40.0 million of working capital increases primarily driven by net increases in accounts and notes receivable and inventory offset by increases in accounts payable and accrued expenses.

Net cash provided by investing activities was primarily the result of the sale of our building in Israel for \$4.0 million partially offset by \$3.4 million of capital expenditures.

Net cash used in financing activities of \$47.1 million was primarily for the redemption of our 1.0% Convertible Subordinated Notes that matured in June 2010.

Discontinued Operations

Net cash used in discontinued operations related to facility payments for our former Test business.

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

Cash flow information: Nine months ended June 27, 2009

Continuing Operations

Net cash used in operating activities was primarily attributable to our net loss from continuing operations of \$69.4 million partially offset by non-cash adjustments of \$21.3 million and net cash inflows from operating assets and liabilities of \$6.8 million. The non-cash adjustment was primarily due to depreciation and amortization of \$15.6 million. The net inflow of cash from operating assets and liabilities of \$6.8 million was primarily due to \$28.4 million decrease in accounts receivable, \$8.9 million decrease in prepaid expenses and other current assets, partially offset by a decrease in income taxes payable of \$26.7 million and decreases in accounts payable and accrued expenses of \$7.1 million. Changes in operating assets and liabilities were primarily due to the impact of lower sales volumes. The change in income taxes payable was due to the settlement of our tax audit in Israel.

Net cash used in investing activities was primarily due to the purchase of Orthodyne for \$87.0 million partially offset by the net reduction in restricted cash of \$34.7 million that was used to support gold financing for our former Wire business. Cash used for capital expenditures totaled \$4.4 million, and net proceeds from the sale of investments were \$3.8 million.

Net cash used in financing activities included \$84.4 million for the repurchase of 0.5% and 1.0% Convertible Subordinated Notes and payment upon maturity of the remaining 0.5% Convertible Subordinated Notes.

Discontinued Operations

Net cash used in operating activities of discontinued operations of \$1.7 million was a result of facility payments for our former Test business and costs for the shutdown of our Wire business.

Net cash provided by investing activities of discontinued operations of \$149.9 million was a result of \$155.0 million paid to us by Heraeus for our Wire business less related transaction costs.

Fiscal 2010 Liquidity and Capital Resource Outlook

We expect our remaining fiscal 2010 capital expenditures to be approximately \$4.0 million. Expenditures are expected to be primarily used for the expansion of our manufacturing operations infrastructure in Asia.

We believe that our existing cash reserves and anticipated cash flows from operations will be sufficient to meet our liquidity and capital requirements for at least the next twelve months. As of July 3, 2010, our total cash and cash equivalents exceeded the face value of our total debt by \$52.8 million. Our liquidity is affected by many factors, some based on normal operations of our business and others related to global economic conditions and industry uncertainties, which we cannot predict. While we have seen a strong recovery in our industry, we cannot predict economic conditions and industry downturns or the timing, strength or duration of recoveries. We will continue to use our cash for working capital needs, general corporate purposes, and to repay our remaining Convertible Subordinated Notes.

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

Convertible Subordinated Notes

The following table reflects our debt, consisting of Convertible Subordinated Notes, as of July 3, 2010:

Type (dollar amounts in thousands)	Maturity Date	Par Value	Fair Value as of July 3, 2010 (1)	Standard & Poor's rating
0.875 % Convertible Subordinated Notes	June 1, 2012	\$ 110,000	\$ 102,300	Not rated
Debt discount on 0.875% Convertible Subordinated Notes due June 2012 *		\$ (13,139)	n/a	

* As adjusted for ASC No. 470.20, Debt, Debt With Conversion Options.

(1) In accordance with ASC No. 820, Investments-Debt & Equity Securities, we rely upon quoted market prices.

Other Obligations and Contingent Payments

Under generally accepted accounting principles, certain obligations and commitments are not required to be included in the Consolidated Balance Sheets and Statements of Operations. These obligations and commitments, while entered into in the normal course of business, may have a material impact on our liquidity. Certain of the following commitments as of July 3, 2010 are appropriately not included in the Consolidated Balance Sheets and Statements of Operations included in this Form 10-Q; however, they have been disclosed in the following table for additional information.

The following table identifies obligations and contingent payments under various arrangements as of July 3, 2010:

(in thousands)	Total	Payments due by fiscal period					Due date not determinable
		Less than 1 year	1 - 3 years	3 - 5 years	More than 5 years		
Contractual Obligations:							
Convertible Subordinated Notes, par value (1)	\$ 110,000	\$ -	\$ 110,000				
Current and long-term liabilities:							
Facility accrual related to discontinued operations (Test)	3,515	1,880	1,635				
Switzerland pension plan obligation	1,419					\$ 1,419	
Long-term income taxes payable	1,552						1,552
Operating lease retirement obligations	2,131	123	662	\$ 593	\$ 753		
Post-employment foreign severance obligations	1,713						1,713
Total Obligations and Contingent Payments reflected on the Consolidated Financial Statements	\$ 120,330	\$ 2,003	\$ 112,297	\$ 593	\$ 753	\$ 4,684	
Contractual Obligations:							
Inventory purchase obligations (2)	\$ 144,500	\$ 144,500					
Operating lease obligations (3)	33,921	9,059	\$ 11,816	\$ 5,497	\$ 7,549		
Cash paid for interest	1,924	962	962				
Commercial Commitments:							
Standby Letters of Credit (4)	195	195					
Total Obligations and Contingent Payments not reflected on the Consolidated Financial Statements	\$ 180,540	\$ 154,716	\$ 12,778	\$ 5,497	\$ 7,549	\$ -	

(1) Does not reflect debt discount of \$13.1 million related to our 0.875% Notes.

(2) We order inventory components in the normal course of our business. A portion of these orders are non-cancelable and a portion may have varying penalties and charges in the event of cancellation. The significant increase in inventory purchase obligations is attributable to anticipated higher sales.

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

(4) We provide standby letters of credit which represent obligations in lieu of security deposits for employee benefit programs and a customs bond.

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

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

RECENT ACCOUNTING PRONOUNCEMENTS

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

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Interest Rate Risk

As of July 3, 2010, we held no available-for-sale investments; however, financial instruments which may subject us to interest rate risk are available-for-sale securities which could consist of fixed income investments (such as corporate bonds, commercial paper, time deposits and U.S. Treasury and Agency securities, or mutual funds that invest in these instruments). We continually monitor our exposure to changes in interest rates and credit ratings of issuers with respect to any available-for-sale securities and target an average life to maturity of less than eighteen months. Accordingly, we believe that the effects to us of changes in interest rates and credit ratings of issuers are limited and would not have a material impact on our financial condition or results of operations.

Foreign Currency Risk

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

Based on our overall currency rate exposure as of July 3, 2010, a near term 10% appreciation or depreciation in the foreign currency portfolio to the U.S. dollar could have a material impact on our financial position, results of operations or cash flows. Our Board of Directors has granted management the authority to enter into foreign exchange forward contracts and other instruments designed to minimize the short term impact currency fluctuations have on our business. We may enter into foreign exchange forward contracts and other instruments in the future; however, our attempts to hedge against these risks may not be successful and may result in a material adverse impact on our financial results and cash flow.

Item 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of July 3, 2010. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that, as of July 3, 2010 our disclosure controls and procedures were effective in providing reasonable assurance the information required to be disclosed by us in reports filed under the Securities Exchange Act of 1934, as amended, is (i) recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms and (ii) accumulated and communicated to our management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding disclosure.

Change in Internal Control Over Financial Reporting

As permitted by Securities and Exchange Commission rules and regulations, management excluded Orthodyne from its assessment of internal control over financial reporting as of October 3, 2009, because it was acquired in fiscal 2009. During fiscal 2010, Orthodyne has been included in management's assessment of internal controls over financial reporting. There were no other changes in our internal controls over financial reporting that occurred during the nine months ended July 3, 2010 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II Other information

Item 1A. RISK FACTORS

CERTAIN RISKS RELATED TO OUR BUSINESS

Risks related to our business are detailed in our Annual Report on Form 10-K for the year ended October 3, 2009 filed with the Securities and Exchange Commission.

Item 6. Exhibits

(a) Exhibits.

Exhibit No.	Description
3(ii)	Amended and Restated By-Laws of Kulicke and Soffa Industries, Inc. dated August 4, 2010.
31.1	Certification of C. Scott Kulicke, Chief Executive Officer of Kulicke and Soffa Industries, Inc., pursuant to Rule 13a-14(a) or Rule 15d-14(a).
31.2	Certification of Michael J. Morris, Chief Financial Officer of Kulicke and Soffa Industries, Inc., pursuant to Rule 13a-14(a) or Rule 15d-14(a).
32.1	Certification of C. Scott Kulicke, Chief Executive Officer of Kulicke and Soffa Industries, Inc., pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Michael J. Morris, Chief Financial Officer of Kulicke and Soffa Industries, Inc., pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

SIGNATURES

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

KULICKE AND SOFFA INDUSTRIES, INC.

Date: August 5, 2010

By: /s/ MICHAEL J. MORRIS

Michael J. Morris

Vice President and Chief Financial Officer

(Chief Financial Officer and Authorized Officer)