KULICKE & SOFFA INDUSTRIES INC
Form 10-Q
August 02, 2018
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2018

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

For the transition period from to .

Commission File No. 0-121
KULICKE AND SOFFA INDUSTRIES, INC.
(Exact name of registrant as specified in its charter)

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

23A Serangoon North Avenue 5, #01-01 K&S Corporate Headquarters, Singapore 554369
(Address of principal executive offices and Zip Code)
(215) 784-6000
(Registrant's telephone number, including area code)
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of large accelerated filer, accelerated filer, smaller reporting company, and emerging growth company in Rule 12b-2 of the Exchange Act. (Check one):

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

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

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

As of July 30, 2018, there were 67,571,990 shares of the Registrant's Common Stock, no par value, outstanding.

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FORM 10 – Q

June 30, 2018
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PART I. - FINANCIAL INFORMATION
Item 1. – FINANCIAL STATEMENTS
KULICKE AND SOFFA INDUSTRIES, INC.
CONSOLIDATED CONDENSED BALANCE SHEETS
(in thousands)
Unaudited

	As of June 30, 2018	September 30, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	$362,686	$ 392,410
Restricted cash	514	530
Short-term investments	258,000	216,000
Accounts and other receivable, net of allowance for doubtful accounts of $675 and $79 respectively	256,694	198,480
Inventories, net	123,293	122,023
Prepaid expenses and other current assets	21,255	23,939
Total current assets	1,022,442	953,382
Property, plant and equipment, net	76,064	67,762
Goodwill	56,649	56,318
Intangible assets, net	55,131	62,316
Deferred income taxes	11,781	27,771
Equity investments	1,358	1,502
Other assets	2,500	2,056
TOTAL ASSETS	$1,225,925	$ 1,171,107
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$78,777	$ 51,354
Accrued expenses and other current liabilities	106,193	124,847
Income taxes payable	18,608	16,780
Total current liabilities	203,578	192,981
Financing obligation	15,437	16,074
Deferred income taxes	27,316	27,152
Income taxes payable	88,571	6,438
Other liabilities	8,941	8,432
TOTAL LIABILITIES	$343,843	$ 251,077
Commitments and contingent liabilities (Note 16)		
SHAREHOLDERS' EQUITY:		
Preferred stock, without par value:		
Authorized 5,000 shares; issued - none	$—	$ —
Common stock, no par value:		
Authorized 200,000 shares; issued 84,601 and 83,953, respectively; outstanding 68,006 and 70,197 shares, respectively	516,208	506,515

Treasury stock, at cost, 16,595 and 13,756 shares, respectively	(224,938)	(157,604)
Retained earnings	591,951	569,080
Accumulated other comprehensive (loss) / income	(1,139)	2,039
TOTAL SHAREHOLDERS' EQUITY	$ 882,082	$ 920,030
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 1,225,925	$ 1,171,107

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

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

	Three months ended		Nine months ended	
	June 30, 2018	July 1, 2017 As Restated	June 30, 2018	July 1, 2017 As Restated
Net revenue	$268,834	$243,897	$704,297	$593,149
Cost of sales	141,865	129,894	380,679	318,456
Gross profit	126,969	114,003	323,618	274,693
Selling, general and administrative	32,532	37,144	92,679	95,747
Research and development	29,974	25,980	88,881	72,505
Impairment charges	—	35,207	—	35,207
Operating expenses	62,506	98,331	181,560	203,459
Income from operations	64,463	15,672	142,058	71,234
Interest income	3,459	1,751	8,420	4,502
Interest expense	(263)	(264)	(799)	(787)
Income before income taxes	67,659	17,159	149,679	74,949
Income tax expense/(benefit)	7,282	(17,657)	122,494	(9,933)
Share of results of equity-method investee, net of tax	121	7	144	7
Net income	$60,256	$34,809	$27,041	$84,875
Net income per share:				
Basic	$0.87	$0.49	$0.39	$1.20
Diluted	$0.86	$0.48	$0.38	$1.18
Cash dividends declared per share	$0.12	$—	$0.12	$—
Weighted average shares outstanding:				
Basic	69,125	71,063	70,019	70,960
Diluted	70,302	72,483	71,113	72,169

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

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

	Three months ended		Nine months ended	
	June 30, 2018	July 1, 2017 As Restated	June 30, 2018	July 1, 2017 As Restated
Net income	$60,256	$34,809	$27,041	$84,875
Other comprehensive income:				
Foreign currency translation adjustment	(8,409)	2,668	(817)	(775)
Unrecognized actuarial gain/(loss) on pension plan, net of tax	61	(123)	36	(38)
	(8,348)	2,545	(781)	(813)
Derivatives designated as hedging instruments:				
Unrealized (loss)/gain on derivative instruments, net of tax	(1,542)	542	(513)	70
Reclassification adjustment for (gain)/loss on derivative instruments recognized, net of tax	(344)	263	(1,884)	1,269
Net (increase)/decrease from derivatives designated as hedging instruments, net of tax	(1,886)	805	(2,397)	1,339
Total other comprehensive (loss)/income	(10,234)	3,350	(3,178)	526
Comprehensive income	$50,022	$38,159	$23,863	$85,401

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

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

	Nine months ended	
	June 30, 2018	July 1, 2017 As Restated
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$27,041	$84,875
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	14,163	11,739
Impairment charges	—	35,207
Equity-based compensation and employee benefits	8,224	9,470
(Excess tax benefits)/Reversal of excess tax benefits from stock-based compensation	(50)	742
Adjustment for doubtful accounts	675	(134)
Adjustment for inventory valuation	3,419	5,610
Deferred income taxes	21,480	(10,082)
Gain on disposal of property, plant and equipment	(421)	(1,036)
Unrealized foreign currency translation	606	(1,849)
Share of results of equity-method investee	144	7
Changes in operating assets and liabilities:		
Accounts and other receivable	(58,949)	(83,619)
Inventory	(5,141)	(46,443)
Prepaid expenses and other current assets	2,702	(9,736)
Accounts payable, accrued expenses and other current liabilities	(1,893)	73,350
Income taxes payable	84,105	(2,639)
Other, net	(2,262)	2,704
Net cash provided by operating activities	93,843	68,166
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property, plant and equipment	(16,152)	(22,052)
Proceeds from sales of property, plant and equipment	625	1,352
Purchase of equity investments	—	(1,312)
Purchase of short-term investments	(487,000)	(170,000)
Maturity of short-term investments	445,000	184,000
Net cash used in investing activities	(57,527)	(8,012)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payment on debts	(526)	(444)
Proceeds from exercise of common stock options	55	403
Repurchase of common stock	(65,334)	(22)
Reversal of excess tax benefits from stock-based compensation	—	(742)
Net cash used in financing activities	(65,805)	(805)
Effect of exchange rate changes on cash, cash equivalents and restricted cash	(251)	673
Changes in cash, cash equivalents and restricted cash	(29,740)	60,022
Cash, cash equivalents and restricted cash at beginning of period*	392,940	423,907
Cash, cash equivalents and restricted cash at end of period	$363,200	$483,929

* Certain time deposits as at October 1, 2016 have been corrected from cash equivalents to short-term investments for comparative purposes.

CASH PAID FOR:		
Interest	$799	$787
Income taxes	$9,500	$8,017

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

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

NOTE 1: BASIS OF PRESENTATION

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

The interim consolidated condensed financial statements are unaudited and, in management's opinion, include all adjustments (consisting only of normal and recurring adjustments except as described in Note 2) necessary for a fair statement of results for these interim periods. The interim consolidated condensed financial statements do not include all of the information and footnote disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) and should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's amended Annual Report on Form 10-K/A for the fiscal year ended September 30, 2017, filed with the Securities and Exchange Commission, which includes Consolidated Balance Sheets as of September 30, 2017 and October 1, 2016, and the related Consolidated Statements of Operations, Statements of Other Comprehensive Income, Changes in Shareholders' Equity and Cash Flows for each of the years in the three-year period ended September 30, 2017. The results of operations for any interim period are not necessarily indicative of the results of operations for any other interim period or for a full year.

Fiscal Year

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

Nature of Business

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

Use of Estimates

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

these estimates.
Vulnerability to Certain Concentrations
Financial instruments which may subject the Company to concentrations of credit risk as of June 30, 2018 and September 30, 2017 consisted primarily of trade receivables. The Company manages credit risk associated with investments by investing its excess cash in highly rated debt instruments of the U.S. Government and its agencies, financial institutions, and corporations. The Company has established investment guidelines relative to diversification and maturities designed to maintain safety and liquidity. These guidelines are periodically reviewed and modified as appropriate. The Company does not have any exposure to sub-prime financial instruments or auction rate securities.

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

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

Foreign Currency Translation and Remeasurement

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

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

Derivative Financial Instruments

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

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

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

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

Cash Equivalents

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

Investments

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

Equity Investments

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

Allowance for Doubtful Accounts

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

Inventories

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

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

Property, Plant and Equipment

Property, plant and equipment are carried at cost. The cost of additions and those improvements which increase the capacity or lengthen the useful lives of assets are capitalized, while repair and maintenance costs are expensed as incurred. Depreciation and amortization are provided on a straight-line basis over the estimated useful lives as follows: buildings 25 years; machinery, equipment, furniture and fittings 3 to 10 years; toolings 1 year; and leasehold improvements are based on the shorter of the life of lease or life of asset. Purchased computer software costs related to business and financial systems are amortized over a five-year period on a straight-line basis. Land is not depreciated.

Valuation of Long-Lived Assets

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

ASC 360 requires that long-lived assets be tested for recoverability whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Such events include significant under-performance relative to historical internal forecasts or projected future operating results; significant changes in the manner of use of the assets; significant negative industry or economic trends; or significant changes in market capitalization. During the three and nine months ended June 30, 2018, no "triggering" events occurred.

Accounting for Impairment of Goodwill

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

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

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

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

For further information on goodwill and other intangible assets, see Note 6 below.

Revenue Recognition

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

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

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

Research and Development

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

Income Taxes

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

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

Equity-Based Compensation

The Company accounts for equity-based compensation under the provisions of ASC No. 718, Compensation - Stock Compensation (“ASC 718”). ASC 718 requires the recognition of the fair value of the equity-based compensation in net income. Compensation expense associated with Relative TSR Performance Share Units is determined using a Monte-Carlo valuation model, and compensation expense associated with time-based and Special/Growth Performance Share Units is determined based on the number of shares granted and the fair value on the date of grant. See Note 12 for a summary of the terms of these performance-based awards. The fair value of the Company's stock option awards are estimated using a Black-Scholes option valuation model. The fair value of equity-based awards is amortized over the vesting period of the award and the Company elected to use the straight-line method for awards granted after the adoption of ASC 718.

Earnings per Share

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

Accounting for Business Acquisitions

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

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

Restructuring charges
Restructuring charges may consist of voluntary or involuntary severance-related charges, asset-related charges and other costs due to exit activities. We recognize voluntary termination benefits when an employee accepts the offered benefit arrangement. We recognize involuntary severance-related charges depending on whether the termination benefits are provided under an ongoing benefit arrangement or under a one-time benefit arrangement. If the former, we recognize the charges once they are probable and the amounts are estimable. If the latter, we recognize the charges once the benefits have been communicated to employees.
Recent Accounting Pronouncements
Restricted Cash
In November 2016, the FASB issued ASU 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash (a consensus of the FASB Emerging Issues Task Force). This update requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. We adopted this ASU in the first quarter of 2018 on a retrospective basis. As of June 30, 2018 and September 30, 2017, restricted cash was $0.5 million. The adoption of this ASU did not have a material impact on our cash flows.
Income Taxes
In October 2016, the FASB issued ASU 2016-16, Accounting for Income Taxes: Intra-Entity Asset Transfers of Assets Other than Inventory. The new guidance requires the tax effects of intercompany transactions (other than transfers of inventory) to be recognized currently. The new guidance will be effective for us in the first quarter of 2019. The modified retrospective approach will be required for transition to the new guidance, with a cumulative-effect adjustment recorded in retained earnings as of the beginning of the period of adoption. We do not expect the adoption of this ASU itself to have a material impact on our financial statements. However, the ultimate impact of adopting this ASU will depend on the balance of intellectual property transferred between our subsidiaries as of the adoption date.
Stock Compensation
In March 2016, the FASB issued ASU 2016-09, Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting. This ASU identifies areas for simplification involving several aspects of accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, an option to recognize gross stock compensation expense with actual forfeitures recognized as they occur, as well as certain classifications on the statement of cash flows. We adopted this ASU as of the beginning of the first quarter of 2018 and elected to account for forfeitures when they occur, on a modified retrospective basis. The adoption impact on the consolidated balance sheet as of June 30, 2018 was a cumulative adjustment of $1.4 million, decreasing the retained earnings and increasing capital surplus. We also recognized deferred tax assets of $5.4 million with a corresponding increase in retained earnings. The adoption did not have any other material impacts on our financial statements.
In May 2017, the FASB issued ASU No. 2017-09, Compensation - Stock Compensation (Topic 718): Scope of Modification Accounting. This ASU specifies the modification accounting applicable to any entity which changes the terms or conditions of a share-based payment award. We elected to prospectively adopt this ASU as of the beginning of the first quarter of 2018. The adoption of this ASU did not have a material impact on our financial statements.
Leases
In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842), which requires the recognition of lease assets and lease liabilities by lessees for those leases classified as operating leases under current GAAP. This ASU will be effective for us beginning in our first quarter of fiscal 2020. The adoption of this ASU will result in an increase in our consolidated balance sheets for these right of use assets and corresponding liabilities. However, the ultimate impact of adopting this ASU will depend on the Company's lease portfolio as of the adoption date. We are currently evaluating

the effects of the adoption of this ASU on our financial statements.
Financial Instruments
In January 2016, the FASB issued ASU No. 2016-01, Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities ("ASU 2016-01"), which updates certain aspects of recognition, measurement, presentation and disclosure of financial instruments. We adopted this ASU as of the beginning of the first quarter of 2018. The adoption of this ASU did not have a material impact on our financial statements.
In June 2016, the FASB issued ASU 2016-13, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. This ASU replaces the impairment methodology in current GAAP, which delays recognition of credit

losses until it is probable a loss has been incurred, with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. This ASU will be effective for us beginning in our first quarter of fiscal 2020. Early adoption is permitted beginning in our first quarter of 2019. We are currently evaluating the impact of the adoption of this ASU on our financial statements.

Derivatives and Hedging

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

Business Combinations

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

Statement of Cash Flows

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

Revenue Recognition

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

Subsequently, the FASB has issued the following standards related to ASU 2014-09: ASU No. 2016-08, Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (“ASU 2016-08”); ASU No. 2016-10, Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing (“ASU 2016-10”); ASU No. 2016-12, Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients (“ASU 2016-12”); and ASU No. 2016-20, Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers (“ASU 2016-20” and collectively, the “new revenue standards”).

The new revenue standards may be applied retrospectively to each prior period presented or retrospectively with the cumulative effect recognized as of the date of adoption. The new standard is effective for annual reporting periods beginning after December 15, 2017. The new standard will be effective for the Company in the first quarter of its fiscal 2019. We have performed an initial evaluation of this ASU and its impact on the financial statements. This included tasks such as identifying contracts, performance obligations and reviewing the applicable revenue streams. We will continue to review the impact of this guidance on revenue related activities, and are monitoring additional changes, modifications, clarifications or interpretations undertaken by the FASB. We do not expect the adoption of this ASU itself to have a material impact on our financial statements. However, the ultimate impact of adopting this ASU will depend on the Company's revenue portfolio as of the adoption date.

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

NOTE 2: RESTATEMENT OF CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

On May 10, 2018 and May 28, 2018, the Company’s Audit Committee, in consultation with the Board of Directors, concluded that the Company’s previously issued financial statements for the fiscal year ended September 30, 2017 and the three months ended December 30, 2017, respectively, could no longer be relied upon. This decision was reached after discussions with the Company’s senior management and outside advisers and as a result, we amended and restated our Form 10-K for fiscal 2017 and our Form 10-Q for the three months ended December 31, 2017.

The above was a result of the Company’s determination that, i) the warranty expense and warranty accrual accounts had been misstated for the quarter ended December 30, 2017 as a result of inaccurate and unsupported journal entries recorded due to management override of controls, and ii) the cost of sales and account payable accounts were misstated for the quarter ended December 30, 2017 as a result of falsified accounting records due to management override of controls. The management overrides of controls were identified during an internal investigation, which was concluded in May 2018, related to an unauthorized disbursement by a senior finance employee that was discovered after the end of the second fiscal quarter of 2018.

With respect to the journal entries impacting warranty expense and warranty accrual accounts, we determined that the manual journal entries initiated by this employee were made to correct the Company's failure to properly include labor costs in our warranty accrual, described below, lacked supporting documentation and were accounted for incorrectly. As a result, the Company identified overstatements of specific warranty accruals of $2.8 million and $15.9 million for fiscal 2016 and fiscal 2017, respectively.

In addition, the Company also identified adjustments that were required to be made to retained earnings, warranty expense and accrual accounts to correct the inappropriate exclusion of the estimated labor costs related to warranty repairs from its historical warranty accounting. While the latter adjustments are not deemed material, the Company has adjusted retained earnings, warranty expense and warranty accrual accounts as part of the restatement. As a result, the Company identified an understatement of warranty accruals relating to fiscal 2014 and prior years of $10.1 million in the aggregate, as the actual labor costs had instead been expensed in the periods incurred.

In addition to the understatement of warranty accruals relating to fiscal 2014 and in prior years, the warranty expense had also been misstated from fiscal 2015 through fiscal 2017, resulting in a cumulative understatement of income from operations of approximately $17.6 million. Of this understatement, approximately $14.8 million, $1.4 million, and $1.4 million was related to the fiscal years ended September 30, 2017, October 1, 2016 and October 3, 2015, respectively. The labor costs relating to warranty expenses were also incorrectly reported in selling, general and administrative expense instead of cost of sales for the fiscal years ended September 30, 2017, October 1, 2016 and October 3, 2015. The Consolidated Balance Sheets were also misstated for the annual periods from 2015 through 2017.

The Company also identified a misstatement in its previously reported consolidated condensed financial statements for the quarterly period ended December 30, 2017, relating to a reduction in the warranty accrual of $5.2 million. This reduction resulted in an understatement of cost of sales and provision for warranty. In addition, the labor costs relating to warranty expenses of $2.4 million were also incorrectly reported in selling, general and administrative expense instead of cost of sales.

In connection with the internal investigation, the Company identified an unauthorized payment that had been initiated by a senior finance employee to an unapproved vendor in the second fiscal quarter of fiscal 2018. The payment was made based on falsified accounting records where two manual journal entries totaling $5.8 million in the aggregate had been recorded in accounts payable and cost of sales. Management determined this to be a misappropriation of the Company's assets. Accordingly, the reported consolidated condensed financial statements for the quarterly period ended December 30, 2017 were restated, because the originally reported accounts payable and cost of sales were each overstated by $5.8 million. The unauthorized payment was subsequently recovered in full.

In addition, we have made related tax expense adjustments for the above matters.

This Quarterly Report on Form 10-Q includes the restated fiscal 2017 comparable prior quarter and year to date periods.

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

	Three Months Ended July 1, 2017		
	As Previously Reported	Effect of Restatement	As Restated
Cost of sales	$132,199	$ (2,305)	$129,894
Gross profit	111,698	2,305	114,003
Selling, general and administrative	39,047	(1,903)	37,144
Operating expenses	100,234	(1,903)	98,331
Income from operations	11,464	4,208	15,672
Income from operations before income taxes	12,951	4,208	17,159
Income tax (benefit) / expense	(17,867)	210	(17,657)
Net income	$30,811	$ 3,998	$34,809
Net income per share:			
Basic	$0.43	$ 0.06	$0.49
Diluted	$0.43	$ 0.06	$0.48

	Nine Months Ended July 1, 2017		
	As Previously Reported	Effect of Restatement	As Restated
Cost of sales	$322,842	$ (4,386)	$318,456
Gross profit	270,307	4,386	274,693
Selling, general and administrative	101,245	(5,498)	95,747
Operating expenses	208,957	(5,498)	203,459
Income from operations	61,350	9,884	71,234
Income from operations before income taxes	65,065	9,884	74,949
Income tax (benefit) / expense	(10,377)	444	(9,933)
Net income	$75,435	$ 9,440	$84,875
Net income per share:			
Basic	$1.06	$ 0.13	$1.20
Diluted	$1.05	$ 0.13	$1.18

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

	Three Months Ended July 1, 2017		
	As Previously Reported	Effect of Restatement	As Restated
Net income	$30,811	$ 3,998	$34,809
Comprehensive income	$34,161	$ 3,998	$38,159

	Nine Months Ended July 1, 2017		
	As Previously Reported	Effect of Restatement	As Restated
Net income	$75,435	$ 9,440	$84,875
Comprehensive income	$75,961	$ 9,440	$85,401

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

	Nine Months Ended July 1, 2017		
	As Previously Reported	Effect of Restatement	As Restated
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$75,435	$ 9,440	$84,875
Adjustments to reconcile net income to net cash provided by operating activities:			
Deferred taxes	(10,526)	444	(10,082)
Accounts payable, accrued expenses and other current liabilities	83,234	(9,884)	73,350
Net cash provided by operating activities	$68,166	$ —	$68,166

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

NOTE 3: RESTRUCTURING

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

The accrued cost as at June 30, 2018 of these restructuring programs is expected to be paid by fiscal 2019.

The following table is a summary of activity related to these restructuring programs for the three and nine months ended June 30, 2018 and July 1, 2017:

	Three months ended June 30, 2018				Nine months ended June 30, 2018			
(in thousands)	Beginning of period (1)	Expenses (2)	Payments	End of period (1)	Beginning of period (1)	Expenses (2)	Payments	End of period (1)
Accrued Severance and benefits	$297	$ (12)	$ (109)	$176	$2,892	$ (43)	$ (2,673)	$176
Other exit costs	1,260	(54)	—	1,206	1,736	(213)	(317)	1,206
	$1,557	$ (66)	$ (109)	$1,382	$4,628	$ (256)	$ (2,990)	$1,382

	Three months ended July 1, 2017				Nine months ended July 1, 2017			
(in thousands)	Beginning of period (1)	Expenses (2)	Payments	End of period (1)	Beginning of period (1)	Expenses (2)	Payments	End of period (1)
Accrued Severance and benefits	$—	$ 2,307	$ —	$2,307	$37	$ 2,307	$ (37)	$2,307
Other exit costs	2,058	37	(199)	1,896	6,525	37	(4,666)	1,896
	$2,058	$ 2,344	$ (199)	$4,203	$6,562	$ 2,344	$ (4,703)	$4,203

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

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

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

NOTE 4: BALANCE SHEET COMPONENTS

The following tables reflect the components of significant balance sheet accounts as of June 30, 2018 and September 30, 2017:

(in thousands)	As of June 30, 2018	September 30, 2017
Short term investments, available-for-sale[1]	$258,000	$ 216,000
Inventories, net:		
Raw materials and supplies	$59,817	$ 44,239
Work in process	50,561	40,827
Finished goods	38,914	61,596
	149,292	146,662
Inventory reserves	(25,999)	(24,639)
	$123,293	$ 122,023
Property, plant and equipment, net:		
Land	$2,182	$ 2,182
Buildings and building improvements	52,615	50,910
Leasehold improvements	12,898	9,882
Data processing equipment and software	35,391	34,700
Machinery, equipment, furniture and fixtures	67,087	60,143
Construction in progress	6,893	8,000
	177,066	165,817
Accumulated depreciation	(101,002)	(98,055)
	$76,064	$ 67,762
Accrued expenses and other current liabilities:		
Wages and benefits	$40,215	$ 47,411
Accrued customer obligations [2]	35,108	52,460
Commissions and professional fees	5,938	8,555
Dividends payable	8,176	—
Deferred rent	1,873	1,930
Severance [3]	976	3,828
Other	13,907	10,663
	$106,193	$ 124,847

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

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

(3) Includes the restructuring plan discussed in Note 3, severance payable in connection with the November 2017 departure of the Company's Chief Financial Officer of $0.6 million, and other severance payments.

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

NOTE 5: BUSINESS COMBINATIONS
Acquisition of Liteq
On July 2, 2017, the Company, through a wholly owned subsidiary, acquired all of the outstanding equity interests of Liteq. Liteq is a lithography solutions provider for advanced packaging.
The purchase price consisted of EUR 25.0 million (approximately $28.6 million) cash paid at closing and additional potential earn-out payments based on Liteq's cumulative pre-tax earnings and cumulative engineering expenses for fiscal 2018 to 2022. The acquisition expands the Company's presence in the advanced packaging market.
The acquisition of Liteq was accounted for in accordance with ASC No. 805, Business Combinations, using the acquisition method. On July 2, 2018, the Company finalized the valuation of the tangible and identifiable intangible assets and liabilities in connection with the acquisition of Liteq and no further adjustment was recorded.
The following table summarizes the allocation of the assets acquired and liabilities assumed based on the fair values as of the acquisition date and related useful lives of the finite-lived intangible assets acquired:

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

Tangible net assets (liabilities) were valued at their respective carrying amounts, which the Company believes approximate their current fair values at the acquisition date.
The valuation of identifiable intangible assets acquired, representing developed technology, reflects management’s estimates based on, among other factors, use of established valuation methods. The developed technology was determined using the relief from royalty method, and is amortized over the period of estimated benefit using the straight-line method and the estimated useful lives of ten years. The straight-line method of amortization represents the Company’s best estimate of the distribution of the economic value of the identifiable intangible assets. Goodwill represents the excess of the purchase price over the fair value of the net tangible and identifiable intangible assets acquired and includes the value of expected future cash flows of Liteq from expected synergies with our other affiliates and other unidentifiable intangible assets. None of the goodwill recorded as part of the acquisition will be deductible for income tax purposes.
In connection with the acquisition of Liteq, the Company recorded deferred tax liabilities relating to the acquired intangible assets, which are partially offset by the net amount of acquired net operating losses. The net amount of acquired net operating losses is comprised of net operating losses less the tax reserves and valuation allowance.
Acquisition of Assembléon
In 2015, the Company, through a wholly owned subsidiary, acquired all of the outstanding equity interests of Assembléon. The cash purchase price of approximately $97.4 million (EUR 80 million) consisted of $72.5 million for 100% of the equity of Assembléon and $24.9 million which was used by Assembléon to settle intercompany loans with its parent company. On January 18, 2018, the Company released $5.0 million (EUR 4.2 million) previously held in escrow, after the conclusion of a legal proceeding for which the Company asserted indemnification rights under the share purchase agreement.

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

NOTE 6: GOODWILL AND INTANGIBLE ASSETS
Goodwill
Intangible assets classified as goodwill are not amortized. The goodwill established in connection with our acquisitions represents the estimated future economic benefits arising from the assets we acquired that did not qualify to be identified and recognized individually. The goodwill also includes the value of expected future cash flows of the acquisitions, expected synergies with our other affiliates and other unidentifiable intangible assets. The Company performs an annual impairment test of its goodwill during the fourth quarter of each fiscal year, which coincides with the completion of its annual forecasting and refreshing of business outlook process.
The Company performed its annual impairment test in the fourth quarter of fiscal 2017 and concluded that no impairment charge was required. During the three and nine months ended June 30, 2018, the Company reviewed qualitative factors to ascertain if a "triggering" event may have taken place that may have the effect of reducing the fair value of the reporting unit below its carrying value and concluded that no triggering event had occurred.

The following table summarizes the Company's recorded goodwill as of June 30, 2018 and September 30, 2017:

(in thousands)	As of June 30, 2018	September 30, 2017
Capital Equipment	$30,237	$ 29,975
APS	26,412	26,343
	$56,649	$ 56,318

Intangible Assets
Intangible assets with determinable lives are amortized over their estimated useful lives. The Company's intangible assets consist primarily of developed technology, customer relationships and trade and brand names.
The following table reflects net intangible assets as of June 30, 2018 and September 30, 2017:

(dollar amounts in thousands)	As of June 30, 2018	September 30, 2017	Average estimated useful lives (in years)
Technology	$90,869	$ 92,140	7.0 to 15.0
Accumulated amortization	(44,195)	(41,162)	
Net technology	$46,674	$ 50,978	
Customer relationships	$36,244	$ 36,968	5.0 to 6.0
Accumulated amortization	(29,185)	(27,398)	
Net customer relationships	$7,059	$ 9,570	
Trade and brand names	$7,396	$ 7,515	7.0 to 8.0
Accumulated amortization	(5,998)	(5,747)	
Net trade and brand name	$1,398	$ 1,768	
Other intangible assets	$2,500	$ 2,500	1.9
Accumulated amortization	(2,500)	(2,500)	
Net other intangible assets	$—	$ —	
Net intangible assets	$55,131	$ 62,316	

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

The following table reflects estimated annual amortization expense related to intangible assets as of June 30, 2018:

(in thousands)	As of June 30, 2018
Remaining fiscal 2018	$1,921
Fiscal 2019	7,683
Fiscal 2020	7,683
Fiscal 2021	5,566
Fiscal 2022 and onwards	32,278
Total amortization expense	$55,131

NOTE 7: CASH, CASH EQUIVALENTS, RESTRICTED CASH AND SHORT-TERM INVESTMENTS

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

Cash, cash equivalents, restricted cash and short-term investments consisted of the following as of June 30, 2018:

(in thousands)	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
Current assets:				
Cash	$ 56,865	$ —	$ —	$ 56,865
Cash equivalents:				
Money market funds [1]	196,844	—	(5)	196,839
Time deposits [2]	89,017	—	—	89,017
Commercial paper [2]	19,965	—	—	19,965
Total cash and cash equivalents	$ 362,691	$ —	$ (5)	$ 362,686
Restricted Cash [2]	514	—	—	514
Total cash, cash equivalents, and restricted cash	$ 363,205	$ —	$ (5)	$ 363,200
Short-term investments [2]:				
Time deposits	162,000	—	—	162,000
Deposits [3]	96,000	—	—	96,000
Total short-term investments	$ 258,000	$ —	$ —	$ 258,000

Total cash, cash equivalents, restricted cash and short-term investments	$	621,205	$	—	$	(5	)	$	621,200	

(1) The fair value was determined using unadjusted prices in active, accessible markets for identical assets, and as such they were classified as Level 1 assets in the fair value hierarchy.
(2) Fair value approximates cost basis.
(3) Represents deposits that require a notice period of three months for withdrawal.

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

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

(1) Fair value approximates cost basis.
(2) Represents deposits that require a notice period of three months for withdrawal.

NOTE 8: EQUITY INVESTMENTS

Equity investments consisted of the following as of June 30, 2018 and September 30, 2017:

(in thousands)	As of June 30, 2018	September 30, 2017
Equity method investment	$ 1,358	$ 1,502

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

NOTE 9: FAIR VALUE MEASUREMENTS

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

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

We measure certain financial assets and liabilities at fair value on a recurring basis. There were no transfers between fair value measurement levels during the three and nine months ended June 30, 2018.

Fair Value Measurements on a Nonrecurring Basis

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

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NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
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Fair Value of Financial Instruments
Amounts reported as accounts receivables, prepaid expenses and other current assets, accounts payable and accrued expenses approximate fair value.

NOTE 10: DERIVATIVE FINANCIAL INSTRUMENTS
The Company’s international operations are exposed to changes in foreign exchange rates due to transactions denominated in currencies other than U.S. dollars. Most of the Company’s revenue and cost of materials are transacted in U.S. dollars. However, a significant amount of the Company’s operating expenses are denominated in local currencies, primarily in Singapore.
The foreign currency exposure of our operating expenses is generally hedged with foreign exchange forward contracts. The Company’s foreign exchange risk management programs include using foreign exchange forward contracts with cash flow hedge accounting designation to hedge exposures to the variability in the U.S. dollar equivalent of forecasted non-U.S. dollar-denominated operating expenses. These instruments generally mature within twelve months. For these derivatives, we report the after-tax gain or loss from the effective portion of the hedge as a component of accumulated other comprehensive income (loss), and we reclassify it into earnings in the same period or periods in which the hedged transaction affects earnings and in the same line item on the Consolidated Condensed Statements of Operations as the impact of the hedged transaction.
The fair value of derivative instruments on our Consolidated Condensed Balance Sheet as of June 30, 2018 and September 30, 2017 was as follows:

(in thousands)	As of June 30, 2018		September 30, 2017	
	Notional Amount	Fair Value Liability Derivatives(1)	Notional Amount	Fair Value Asset Derivatives(2)
Derivatives designated as hedging instruments:				
Foreign exchange forward contracts (3)	$39,967	1,044	$36,404	$ 1,353
Total derivatives	$39,967	1,044	$36,404	$ 1,353

(1) The fair value of derivative liabilities is measured using level 2 fair value inputs and is included in accrued expenses and other current liabilities on our Consolidated Condensed Balance Sheet.
(2) The fair value of derivative assets is measured using level 2 fair value inputs and is included in prepaid expenses and other current assets on our Consolidated Condensed Balance Sheet.
(3) Hedged amounts expected to be recognized to income within the next twelve months.

The effects of derivative instruments designated as cash flow hedges in our Consolidated Condensed Statements of Comprehensive Income for the three and nine months ended June 30, 2018 and July 1, 2017 are as follows:

(in thousands)	Three months ended		Nine months ended	
	June 30, 2018	July 1, 2017	June 30, 2018	July 1, 2017
Foreign exchange forward contract in cash flow hedging relationships:				
Net (loss)/gain recognized in OCI, net of tax(1)	$(1,542)	$542	$(513)	$70
Net gain/(loss) reclassified from accumulated OCI into income, net of tax(2)	$344	$(263)	$1,884	$(1,269)
Net gain recognized in income(3)	$—	$—	$—	$—

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

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

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NOTE 11: DEBT AND OTHER OBLIGATIONS
Financing Obligation
On December 1, 2013, Kulicke & Soffa Pte Ltd. (“Pte”), the Company's wholly owned subsidiary, signed a lease with DBS Trustee Limited as trustee of Mapletree Industrial Trust (the “Landlord”) to lease from the Landlord approximately 198,000 square feet, representing approximately 70% of a building in Singapore as our corporate headquarters, as well as a manufacturing, technology, sales and service center (the “Building”). The lease has a 10-year non-cancellable term (the "Initial Term") and contains options to renew for 2 further 10-year terms. The annual rent and service charge for the Initial Term range from $4 million to $5 million Singapore dollars.
Pursuant to ASC No. 840, Leases ("ASC 840"), we have classified the Building on our balance sheet as property, plant and equipment, which we are depreciating over its estimated useful life of 25 years. We concluded that the term of the financing obligation is 10 years. This is equal to the non-cancellable term of our lease agreement with the Landlord. At the inception of the lease, the asset and financing obligation recorded on the balance sheet was $20.0 million, which was based on an interest rate of 6.3% over the Initial Term. As of June 30, 2018, the financing obligation related to the Building is $16.2 million, which approximates fair value (Level 2). The financing obligation will be settled through a combination of periodic cash rental payments and the return of the leased property at the expiration of the lease. We do not report rent expense for the property, which is deemed owned for accounting purposes. Rather, rental payments required under the lease are considered debt service and applied to the deemed landlord financing obligation and interest expense. The Building and financing obligation are being amortized in a manner that will not generate a gain or loss upon lease termination.
Credit Facilities and Bank Guarantees
On November 22, 2013, the Company obtained a $5.0 million credit facility with Citibank in connection with the issuance of bank guarantees for operational purposes. As of June 30, 2018, the outstanding amount is $2.9 million. In addition, the Company has other bank guarantees for operational purposes which are secured with corresponding deposits placed with the issuer banks. These amounts are shown as restricted cash in the Consolidated Condensed Balance Sheets.

NOTE 12: SHAREHOLDERS’ EQUITY AND EMPLOYEE BENEFIT PLANS
Common Stock and 401(k) Retirement Plan
The Company has a 401(k) retirement plan (the “Plan”) for eligible U.S. employees. The Plan allows for employee contributions and matching Company contributions from 4% to 6% based upon terms and conditions of the 401(k) Plan.
The following table reflects the Company’s contributions to the Plan during the three and nine months ended June 30, 2018 and July 1, 2017:

	Three months ended		Nine months ended	
(in thousands)	June 30, 2018	July 1, 2017	June 30, 2018	July 1, 2017
Cash	$408	$ 390	$1,261	$1,307

Stock Repurchase Program
On August 15, 2017, the Company’s Board of Directors authorized a program (the "Program") to repurchase up to $100 million of the Company’s common stock on or before August 1, 2020. The Company has entered into a written trading plan under Rule 10b5-1 of the Exchange Act to facilitate repurchases under the Program. The Program may be suspended or discontinued at any time and is funded using the Company's available cash, cash equivalents and short-term investments. Under the Program, shares may be repurchased through open market and/or privately

negotiated transactions at prices deemed appropriate by management. The timing and amount of repurchase transactions under the Program depend on market conditions as well as corporate and regulatory considerations. During the three and nine months ended June 30, 2018, the Company repurchased a total of 1.8 million and 2.8 million shares of common stock under the Program at a cost of $42.6 million and $67.3 million, respectively. The stock repurchases were recorded in the periods they were delivered and accounted for as treasury stock in the Company's Consolidated Condensed Balance Sheet. The Company records treasury stock purchases under the cost method using the first-in, first-out (FIFO) method. Upon reissuance of treasury stock, amounts in excess of the acquisition cost are credited to additional paid-in capital. If the Company reissues treasury stock at an amount below its acquisition cost and additional paid-in capital associated with prior treasury stock transactions is insufficient to cover the difference between acquisition cost and the reissue price, this difference is recorded against retained earnings. As of June 30, 2018, our remaining stock repurchase authorization under the Program was approximately $21.4 million.

On July 10, 2018, the Company's Board of Directors increased the share repurchase authorization under the Program by an additional $100 million.

Dividends

On June 14, 2018, the Board of Directors declared and authorized the initiation of a quarterly dividend of $0.12 per share of common stock. The first dividend payment of $8.2 million was made on July 16, 2018 to holders of record as of June 28, 2018. The declaration of any future cash dividend is at the discretion of the Board of Directors and will depend on the Company's financial condition, results of operations, capital requirements, business conditions and other factors, as well as a determination that such dividends are in the best interests of the Company's stockholders.

Accumulated Other Comprehensive Income

The following table reflects accumulated other comprehensive income reflected on the Consolidated Condensed Balance Sheets as of June 30, 2018 and September 30, 2017:

(in thousands)	As of June 30, 2018	September 30, 2017
Gain from foreign currency translation adjustments	$1,605	$ 2,422
Unrecognized actuarial loss on pension plan, net of tax	(1,700)	(1,736)
Unrealized (loss)/gain on hedging	(1,044)	1,353
Accumulated other comprehensive (loss)/income	$(1,139)	$ 2,039

Equity-Based Compensation

The Company has stockholder-approved equity-based employee compensation plans (the “Employee Plans”) and director compensation plans (the “Director Plans”) (collectively, the “Equity Plans”). As of June 30, 2018, 4.7 million shares of common stock are available for grant to its employees and directors under the 2017 Equity Plan, including previously registered shares that have been carried forward for issuance from the 2009 Equity Plan.

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

Equity-based compensation expense recognized in the Consolidated Condensed Statements of Operations for the three and nine months ended June 30, 2018 and July 1, 2017 was based upon awards ultimately expected to vest. Following the early adoption of ASU 2016-09, Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting in this quarter, forfeitures have been accounted for when they occur.

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The following table reflects Time-based RSUs, Relative TSR PSUs, Special/Growth PSUs and common stock granted during the three and nine months ended June 30, 2018 and July 1, 2017:

(shares in thousands)	Three months ended		Nine months ended	
	June 30, 2018	July 1, 2017	June 30, 2018	July 1, 2017
Time-based RSUs	3	4	452	708
Relative TSR PSUs	1	5	154	386
Special/Growth PSUs	—	—	59	—
Common stock	8	10	25	35
Equity-based compensation in shares	12	19	690	1,129

The following table reflects total equity-based compensation expense, which includes Time-based RSUs, Relative TSR PSUs, Special/Growth PSUs and common stock, included in the Consolidated Condensed Statements of Operations during the three and nine months ended June 30, 2018 and July 1, 2017:

(in thousands)	Three months ended		Nine months ended	
	June 30, 2018	July 1, 2017	June 30, 2018	July 1, 2017
Cost of sales	$126	$97	$384	$344
Selling, general and administrative	2,111	2,179	5,877	7,363
Research and development	656	514	1,963	1,763
Total equity-based compensation expense	$2,893	$2,790	$8,224	$9,470

The following table reflects equity-based compensation expense, by type of award, for the three and nine months ended June 30, 2018 and July 1, 2017:

(in thousands)	Three months ended		Nine months ended	
	June 30, 2018	July 1, 2017	June 30, 2018	July 1, 2017
Time-based RSUs	$1,662	$1,756	$5,475	$6,289
Relative TSR PSUs	935	838	1,910	2,626
Special/Growth PSUs	101	—	254	—
Common stock	195	196	585	555
Total equity-based compensation expense	$2,893	$2,790	$8,224	$9,470

NOTE 13: EARNINGS PER SHARE

Basic income per share is calculated using the weighted average number of shares of common stock outstanding during the period. Stock options and restricted stock are included in the calculation of diluted earnings per share, except when their effect would be anti-dilutive.

The following tables reflect a reconciliation of the shares used in the basic and diluted net income per share computation for the three months ended June 30, 2018 and July 1, 2017:

	Three months ended			
(in thousands, except per share data)	June 30, 2018		July 1, 2017 As Restated	
	Basic	Diluted	Basic	Diluted
NUMERATOR:				
Net income	$60,256	$60,256	$34,809	$34,809
DENOMINATOR:				
Weighted average shares outstanding - Basic	69,125	69,125	71,063	71,063
Dilutive effect of Equity Plans		1,177		1,420
Weighted average shares outstanding - Diluted		70,302		72,483
EPS:				
Net income per share - Basic	$0.87	$0.87	$0.49	$0.49
Effect of dilutive shares		(0.01)		(0.01)
Net income per share - Diluted		$0.86		$0.48

	Nine months ended			
(in thousands, except per share data)	June 30, 2018		July 1, 2017 As Restated	
	Basic	Diluted	Basic	Diluted
NUMERATOR:				
Net income	$27,041	$27,041	$84,875	$84,875
DENOMINATOR:				
Weighted average shares outstanding - Basic	70,019	70,019	70,960	70,960
Dilutive effect of Equity Plans		1,094		1,209
Weighted average shares outstanding - Diluted		71,113		72,169
EPS:				
Net income per share - Basic	$0.39	$0.39	$1.20	$1.20
Effect of dilutive shares		(0.01)		(0.02)
Net income per share - Diluted		$0.38		$1.18

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NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
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NOTE 14: INCOME TAXES
The following table reflects the provision for income taxes and the effective tax rate for the three and nine months ended June 30, 2018 and July 1, 2017:

(dollar amounts in thousands)	Three months ended June 30, 2018	Three months ended July 1, 2017 As Restated	Nine months ended June 30, 2018	Nine months ended July 1, 2017 As Restated
Income tax expense/(benefit)	$7,282	$(17,657)	$122,494	$(9,933)
Effective tax rate	10.8 %	(102.9)%	81.9 %	(13.3)%

For the nine months ended June 30, 2018, the effective income tax rate differed from the federal statutory tax rate primarily due to tax expense related to the enactment of the Tax Cuts and Jobs Act (the "Act"), foreign withholding taxes, and tax liabilities from foreign operations, partially offset by tax benefits from profits generated in foreign operations subject to a lower statutory tax rate than the federal rate, the impact of tax holidays, tax benefits from domestic research expenditures, and foreign tax credit.
For the nine months ended July 1, 2017, the effective income tax rate differed from the federal statutory tax rate primarily due to tax benefits from electing to claim foreign tax credit, profits generated in foreign operations subject to a lower statutory tax rate than the federal rate, domestic research tax credit, and the impact of tax holiday, partially offset by an increase for deferred taxes on unremitted earnings, foreign withholding taxes, and tax liabilities from foreign operations.
The increase in tax expense for the three months ended June 30, 2018 to $7.3 million from the tax benefit for the three months ended July 1, 2017 of $(17.7) million was primarily due to a discrete tax benefit from electing to claim foreign tax credit reflected in fiscal 2017 and higher quarter-to-date profitability, offset by decrease in the federal statutory tax rate. The increase in tax expense for the nine months ended June 30, 2018 to $122.5 million from the tax benefit for the nine months ended July 1, 2017 of $(9.9) million, of which $105.7 million was due to the enactment of the Act and the remaining amount was primarily due to a discrete tax benefit from electing to claim foreign tax credit reflected in fiscal 2017 and higher year-to-date profitability, partially offset by a decrease in the federal statutory tax rate.
The Company's future effective tax rate would be affected by the enactment of the Act, by decrease in earnings in countries where it has lower statutory rates or increase in earnings in countries where it has higher statutory rates, by changes in the valuation of its deferred tax assets and liabilities, or by changes in tax laws, regulations, accounting principles, or interpretations thereof.
It is reasonably possible that the amount of the unrecognized tax benefit with respect to certain unrecognized tax positions will increase or decrease during the next 12 months due to the expected lapse of statutes of limitation and / or settlements of tax examinations. The Company recently completed an income tax examination by the Internal Revenue Service which resulted in an insignificant impact to the financial statements. The Company is under income tax examination by tax authorities in certain foreign jurisdictions.
In the first quarter of fiscal 2018, excess tax benefits from stock based compensation of $5.4 million, previously offset against deferred tax assets, were reflected in the consolidated balance sheets as a component of retained earnings as a result of the adoption of ASU 2016-09. Please refer to Note 12 for more details regarding the adoption of ASU 2016-09.
2017 Tax Cuts and Jobs Act

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

At December 30, 2017, the Company has reflected the income tax effects of the Act for which the accounting under Accounting Standards Codification Topic 740, Income Taxes is complete. For those items for which the accounting is not yet complete, but for which a reasonable estimate could be made, we have recorded the provisional tax expense in the Statement of Operations. As described below, we have made a reasonable estimate of the effects on our existing deferred tax balances and the one-time transition tax. We recognized an aggregate net discrete tax provision of $105.7 million, comprised primarily of approximately $2.6 million from the re-measurement of U.S. deferred tax assets and liabilities using the relevant tax rate at which we expect them to reverse in the future and approximately $103.2 million from the one-time transition tax on deemed repatriation of previously untaxed accumulated earnings and profits of certain foreign subsidiaries, net of deemed taxes paid. For the period ended June 30, 2018, there have been no other material changes to the provisional tax expense.

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The discrete tax provision incorporates assumptions made based upon our current interpretation of the Act, existing laws and regulations, and information available through July 20, 2018. The final impact of the Act may differ significantly from this estimates, due to, among other things, changes in interpretations and assumptions made by the Company as a result of additional information, additional guidance that may be issued by the U.S. Department of the Treasury or any other relevant governing body. The accounting for the tax effects for the Act will be completed by December 22, 2018 in accordance with Staff Accounting Bulletin No. 118 (“SAB 118”).
In addition, we will record the income tax effects of the global intangible low-taxed income (“GILTI”) as well as all other changes enacted by the Act as incurred for fiscal years beginning after 2018 (our fiscal 2019).
Provisional Amounts
Deferred tax assets and liabilities: We have re-measured our U.S. deferred tax assets and liabilities based on the relevant tax rates at which they are expected to reverse, which is estimated to be at either at the blended tax rate of 24.5% (applicable for fiscal 2018) or 21% (applicable for fiscal 2019 and later). Because we are still analyzing certain aspects of the Act and refining our calculations, which could potentially affect the measurement of these balances and change our estimated deferred tax amounts, we have recorded a provisional amount related to the re-measurement of our deferred tax balance of $2.6 million.
One-time transition tax: The one-time transition tax has been estimated based on our accumulated post-1986 deferred foreign income that has not previously been subject to U.S. income tax. Because we have not yet completed our calculation of the one-time transition tax, we have recorded a provisional income tax expense of $103.2 million related to the one-time transition tax of our foreign subsidiaries. No additional U.S. income taxes have been provided for any remaining undistributed foreign earnings not subject to the transition tax or any additional outside basis difference inherent in these entities as these amounts continue to be indefinitely reinvested in foreign operations.

NOTE 15: SEGMENT INFORMATION
Reportable segments are defined as components of an enterprise that engage in business activities for which discrete financial information is available and regularly reviewed by the chief operating decision maker in deciding how to allocate resources and to assess performance. The Company's Chief Executive Officer is the Company's chief operating decision maker. The chief operating decision-maker does not review discrete asset information.
In the fourth quarter of fiscal 2017, we reorganized our reporting structure into two reportable segments consisting of: (i) Capital Equipment; and (ii) APS. As a result of this re-alignment, the Company has aggregated twelve operating segments as of June 30, 2018, with six operating segments within the Capital Equipment reportable segment and six operating segments in the APS reportable segment. Subsequently, we have recasted financial results for the three and nine months ended July 1, 2017 based on the revised segment structure. The change in the segments was a result of changes to our organizational structure initiated during the fourth quarter of fiscal 2017 to streamline business operations to improve profitability and competitiveness and reflects a change in the manner in which our chief operating decision maker reviews information to assess our performance and make decisions about resource allocation. As part of these actions, we transitioned to a new internal management structure whereby the operating management responsible for tools used to assemble semiconductor devices, including integrated circuits (“ICs”), high and low powered discrete devices, light-emitting diodes (“LEDs”) and power modules, services, spares, maintenance, repair and upgrading operating segments was brought under common leadership in the APS segment. The restructuring actions were completed in fiscal year 2017. As a result of the reorganization, the Capital Equipment segment is comprised of the manufacturing and selling of ball bonders, wafer level bonders, wedge bonders, advanced packaging and electronic assembly solutions to semiconductor device manufacturers, IDMs, OSATs, other electronics manufacturers and automotive electronics suppliers.

KULICKE AND SOFFA INDUSTRIES, INC.
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
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The following table reflects operating information by segment for the three and nine months ended June 30, 2018 and July 1, 2017:

(in thousands)	Three months ended June 30, 2018	Three months ended July 1, 2017 As Restated	Nine months ended June 30, 2018	Nine months ended July 1, 2017 As Restated
Net revenue:				
Capital Equipment	$229,462	$202,240	$578,197	$477,957
APS	39,372	41,657	126,100	115,192
Net revenue	268,834	243,897	704,297	593,149
Income from operations:				
Capital Equipment	57,771	30,982	116,615	73,836
APS	6,692	(15,310)	25,443	(2,602)
Income from operations	$64,463	$15,672	$142,058	$71,234

The following tables reflect capital expenditures, depreciation expense and amortization expense for the three and nine months ended June 30, 2018 and July 1, 2017.

(in thousands)	Three months ended June 30, 2018	Three months ended July 1, 2017	Nine months ended June 30, 2018	Nine months ended July 1, 2017
Capital expenditures:				
Capital Equipment	$999	$1,423	$4,878	$12,907
APS	3,072	2,380	11,603	9,002
	$4,071	$3,803	$16,481	$21,909

(in thousands)	Three months ended June 30, 2018	Three months ended July 1, 2017	Nine months ended June 30, 2018	Nine months ended July 1, 2017
Depreciation expense:				
Capital Equipment	$1,926	$1,599	$5,601	$4,660
APS	1,063	843	2,635	2,513
	$2,989	$2,442	$8,236	$7,173
Amortization expense:				
Capital Equipment	$1,053	$594	$3,188	$1,782
APS	909	927	2,739	2,784
	$1,962	$1,521	$5,927	$4,566

NOTE 16: COMMITMENTS, CONTINGENCIES AND CONCENTRATIONS

Warranty Expense

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

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The following table reflects the reserve for warranty activity for the three and nine months ended June 30, 2018 and July 1, 2017. The prior year periods have been adjusted for the restatement described in Note 2, "Restatement of Consolidated Financial Statements":

(in thousands)	Three months ended		Nine months ended	
	June 30, 2018	July 1, 2017 As Restated	June 30, 2018	July 1, 2017 As Restated
Reserve for warranty, beginning of period (As Restated)	$14,197	$13,289	$13,796	$12,544
Provision for warranty	3,204	3,121	9,384	8,849
Utilization of reserve	(3,027)	(2,570)	(8,806)	(7,553)
Reserve for warranty, end of period	$14,374	$13,840	$14,374	$13,840

Other Commitments and Contingencies

The following table reflects obligations not reflected on the Consolidated Condensed Balance Sheet as of June 30, 2018:

		Payments due by fiscal year				
(in thousands)	Total	2018	2019	2020	2021	thereafter
Inventory purchase obligation (1)	$149,414	$149,414	$—	$—	$—	$ —
Operating lease obligations (2)	18,968	856	3,623	3,190	2,201	9,098
Total	$168,382	$150,270	$3,623	$3,190	$2,201	$ 9,098

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

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

Pursuant to ASC No. 840, Leases, for lessee's involvement in asset construction, the Company was considered the owner of the Building during the construction phase. The Building was completed on December 1, 2013 and Pte signed an agreement with the Landlord to lease from the Landlord approximately 198,000 square feet, representing approximately 70% of the Building. Following the completion of construction, we performed a sale-leaseback analysis pursuant to ASC 840-40 and determined that because of our continuing involvement, ASC 840-40 precluded us from derecognizing the asset and associated financing obligation. As such, we reclassified the asset from construction in progress to property, plant and equipment and began to depreciate the building over its estimated useful life of 25 years. We concluded that the term of the financing obligation is 10 years. This is equal to the non-cancellable term of our lease agreement with the Landlord. As of June 30, 2018, we recorded a financing obligation related to the Building of $16.2 million (see Note 11 above). The financing obligation is not reflected in the table above.

Concentrations

The following table reflects significant customer concentrations as a percentage of net revenue for the nine months ended June 30, 2018 and July 1, 2017.

	Nine months ended	
	June 30, 2018	July 1, 2017
Haoseng Industrial Company Limited (1)	12.8%	*

(1) Distributor of the Company's products.

* Represented less than 10% of total net revenue

The following table reflects significant customer concentrations as a percentage of total accounts receivable as of June 30, 2018 and July 1, 2017:

	As of	
	June 30, 2018	July 1, 2017
Haoseng Industrial Company Limited (1)	27.6%	21.8%
Super Power International Ltd (1)	13.0%	10.3%
Siliconware Precision Industries Ltd.	*	13.4%

(1) Distributor of the Company's products.
* Represented less than 10% of total accounts receivable

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

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

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

Generally, words such as “may,” “will,” “should,” “could,” “anticipate,” “expect,” “intend,” “estimate,” “plan,” “continue,” “g “believe,” or the negative of or other variations on these and other similar expressions identify forward-looking statements. These forward-looking statements are made only as of the date of this filing. We do not undertake to update or revise the forward-looking statements, whether as a result of new information, future events or otherwise.
Forward-looking statements are based on current expectations and involve risks and uncertainties. Our future results could differ significantly from those expressed or implied by our forward-looking statements. These risks and uncertainties include, without limitation, those described below and under the heading “Risk Factors” in our amended Annual Report on Form 10-K/A for the fiscal year ended September 30, 2017 (the “Annual Report”) and our other reports and registration statements filed from time to time with the Securities and Exchange Commission. This discussion should be read in conjunction with the Consolidated Condensed Financial Statements and Notes included in this report, as well as our audited financial statements included in the Annual Report.
We operate in a rapidly changing and competitive environment. New risks emerge from time to time and it is not possible for us to predict all risks that may affect us. Future events and actual results, performance and achievements could differ materially from those set forth in, contemplated by or underlying the forward-looking statements, which speak only as of the date on which they were made. Except as required by law, we assume no obligation to update or revise any forward-looking statement to reflect actual results or changes in, or additions to, the factors affecting such forward-looking statement. Given those risks and uncertainties, investors should not place undue reliance on forward-looking statements as predictions of actual results.

OVERVIEW

Kulicke and Soffa Industries, Inc. ("We", the "Company" or "K&S") designs, manufactures and sells capital equipment and tools used to assemble semiconductor devices, including integrated circuits (“ICs”), high and low powered discrete devices, light-emitting diodes (“LEDs”), and power modules. We also service, maintain, repair and upgrade our equipment. Our customers primarily consist of semiconductor device manufacturers, integrated device manufacturers ("IDMs"), outsourced semiconductor assembly and test providers (“OSATs”), other electronics manufacturers and automotive electronics suppliers.
Our goal is to be the technology leader and the most competitive supplier in terms of cost and performance in each of our major product lines. Accordingly, we invest in research and engineering projects intended to enhance our position as a leader in the semiconductor assembly technology. We also remain focused on our cost structure through continuous improvement and optimization of operations. Cost reduction efforts are an important part of our normal ongoing operations and are intended to generate savings without compromising overall product quality and service levels.
In fiscal 2017, we reorganized our reporting structure into two reportable segments consisting of: (i) Capital Equipment; and (ii) Aftermarket Products and Services ("APS"). As a result of this re-alignment, the Company has

aggregated twelve operating segments as of June 30, 2018, with six operating segments within the Capital Equipment reportable segment and six operating segments in the APS reportable segment. Subsequently, we have recasted reportable segment information to reflect the current segment structure and conform to the current period presentation. The change in the segments was a result of changes to our organizational structure initiated during fiscal 2017 to streamline business operations to improve profitability and competitiveness and reflects a change in the manner in which our chief operating decision maker reviews information to assess our performance and make decisions about resource allocation. As part of these actions, we transitioned to a new internal management structure whereby the operating management responsible for tools used to assemble semiconductor devices, including integrated circuits ("ICs"), high and low powered discrete devices, light-emitting diodes ("LEDs") and power modules, services, spares, maintenance, repair and upgrading operating segments was brought under common leadership in the APS segment. The restructuring actions were completed in fiscal year 2017. As a result of the reorganization, the Capital Equipment segment is comprised of the manufacturing and selling of ball bonders, wafer level bonders, wedge bonders, advanced packaging and electronic assembly solutions to semiconductor device manufacturers, IDMs, OSATs, other electronics manufacturers and automotive electronics suppliers.

For further information on our operating segments and the reorganization actions, please refer to Note 15, "Segment Information," to our Consolidated Condensed Financial Statements included under Item 1. Our prior period reportable segment information has been recasted to reflect the current segment structure and conform to the current period presentation.

Business Environment

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

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

Our APS segment has historically been less volatile than our Capital Equipment segment. APS sales are more directly tied to semiconductor unit consumption rather than capacity requirements and production capability improvements.

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

To limit potential adverse cyclical, seasonal and macroeconomic effects on our financial position, we have continued our efforts to maintain a strong balance sheet. As of June 30, 2018, our total cash, cash equivalents, restricted cash and short-term investments were $621.2 million, a $12.3 million increase from the prior fiscal year end. We believe this strong cash position will allow us to continue to invest in product development and pursue non-organic opportunities.

Technology Leadership

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

In addition to gold, silver alloy wire and aluminum wire, our leadership in the industry's use of copper wire for the bonding process is an example of the benefits of our collaborative efforts. By working with customers, material suppliers, and other equipment suppliers, we have developed a series of robust, high-yielding production processes, which have made copper wire widely accepted and significantly reduced the cost of assembling an integrated circuit. Our leadership also has allowed us to maintain a competitive position in the latest generations of gold and copper ball bonders, which enables our customers to handle the leading technologies in terms of bond pad pitch, silicon with the latest node and complex wire bonding requirement. We continue to see demand for our large bondable area ("LA" and “ELA”) configured machines. Both

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LA and ELA option are now available on all of our Power Series ("PS") models and allow our customers to gain added efficiencies and to reduce the cost of packaging.

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

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

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

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

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

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

Products and Services

The following tables reflect net revenue by business segment for the three and nine months ended June 30, 2018 and July 1, 2017:

	Three months ended			
	June 30, 2018		July 1, 2017	
(dollar amounts in thousands)	Net revenues	% of total net revenue	Net revenues	% of total net revenue
Capital Equipment	$229,462	85.4 %	$202,240	82.9 %
APS	39,372	14.6 %	41,657	17.1 %
	$268,834	100.0%	$243,897	100.0%

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	Nine months ended			
	June 30, 2018		July 1, 2017	
(dollar amounts in thousands)	Net revenues	% of total net revenue	Net revenues	% of total net revenue
Capital Equipment	$578,197	82.1 %	$477,957	80.6 %
APS	126,100	17.9 %	115,192	19.4 %
	$704,297	100.0%	$593,149	100.0%

Capital Equipment Segment

In our Capital Equipment segment, we manufacture and sell a line of ball bonders, wafer level bonders, wedge bonders, advanced packaging and electronic assembly solutions that are sold to semiconductor device manufacturers, IDMs, OSATs, other electronics manufacturers and automotive electronics suppliers.

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Our principal Capital Equipment segment products include:

Business Line	Product Name (1)	Typical Served Market
Ball bonders	IConn^{PS} PLUS series (2) (3) (4)	Advanced and ultra fine pitch applications
	IConn^{PS} ProCu PLUS series (2) (3) (4)	High-end copper wire applications demanding advanced process capability and high productivity
	IConn^{PS} MEM PLUS series (2) (3) (4)	Memory applications
	ConnX^{PS} PLUS series (2) (3) (4)	Bonder for low-to-medium pin count applications
	ConnX^{PS} LED PLUS (2) (3) (4)	LED applications
	ConnX^{PS} ELITE (2) (3) (4)	Bonder for discrete and low pin count applications
	RAPID Pro (2) (3) (4)	Wire applications demanding real-time monitoring and diagnostics
	OptoLux	LED applications
Wedge bonders	3600PLUS	Power hybrid and automotive modules using either heavy aluminum wire or PowerRibbon®
	3700PLUS	Hybrid and automotive modules using thin aluminum wire
	PowerFusion^{PS} TL PowerFusion^{PS} HL PowerFusion^{PS} HLx	Power semiconductors using either aluminum wire or PowerRibbon®
	Asterion	Power hybrid and automotive modules with extended area using heavy and thin aluminum
	Asterion EV	Extended area for battery bonding and dual lane hybrid module bonding
Advanced Packaging	AT Premier PLUS	Advanced wafer level bonding application
	APAMA C2S	Thermo-compression for chip-to-substrate and chip-to-chip bonding applications
	APAMA C2W	Thermo-compression for chip-to-wafer and high density fan-out wafer level packaging ("HD FOWLP") bonding applications
	APAMA DA	High performance and productivity die attach bonder for single or stack die bonding

LITEQ 500A LITEQ 500B	Lithographic stepper for the formation of redistribution layer ("RDL") in FOWLP, fan-in wafer level packaging ("FIWLP") and flip chip ("FC")
Hybrid Series	Advanced packages assembly applications requiring high throughput such as flip chip, WLP, FOWLP, embedded die, SiP, package-on-package ("POP"), and modules
Katalyst	High performance and high accuracy flip chip bonder

(1) Power Series (“PS”)
(2) Standard version
(3) Large area version
(4) Extended large area version

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

Ball Bonders

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

- The IConn^{PS} PLUS series: high-performance ball bonders which can be configured for either gold or copper wire.
- The IConn^{PS} ProCu PLUS series: high-performance copper wire ball bonders for advanced wafer nodes.
- The IConn^{PS} MEM PLUS series: ball bonders designed for the assembly of stacked memory devices.
- The ConnX^{PS} PLUS series: cost-performance ball bonders which can be configured for either gold or copper wire.
- The ConnX^{PS} LED PLUS and Optolux: ball bonders targeted specifically at the fast growing LED market.
- ConnX^{PS} ELITE: ball bonders for discrete and low pin count applications.
- RAPID Pro: ball bonders for applications demanding real-time monitoring and diagnostics.

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

We also offer an integrated CIS line solution utilizing our ball bonders and APAMA DA. The CIS line is an integrated line solution combining our ball bonders and APAMA DA into a single line along with an oven and buffer. It provides a complete solution to CMOS Image Sensor manufacturers where the sensors can be attached and wire-bonded onto substrates on the same line before final lens assembly.

Wedge Bonders

We design and manufacture wedge bonders for the power semiconductor and automotive markets. Wedge bonders may use either aluminum wire or aluminum ribbon to connect semiconductor chips in power packages, power hybrids and automotive modules for products such as motor control modules or inverters for hybrid cars. In addition, our wedge bonder products can be used in the high reliability interconnections of rechargeable batteries in hybrid and electric automotive applications.

Our portfolio of wedge bonding products includes:

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

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

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

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Advanced Packaging

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

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

Our APAMA Chip-to-Wafer ("C2W") bonder enables APAMA's high throughput architecture to be applied to 2.5D and 3D packages using silicon or glass interposers. The C2W dual head system also provides an adaptable manufacturing platform addressing applications which require highly accurate die placement such as High Density FOWLP. The C2W platform, combined with the capacity of the C2S platform, enables the APAMA TCB systems to support assembly for the full range of stacked TSV products.

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

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

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

Our Katalyst™ high performance and high accuracy flip chip bonder delivers solutions with a focus on productivity, accuracy and speed, advanced capabilities, and ease of use.

Electronic Assembly

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

APS Segment

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

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

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

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

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RESULTS OF OPERATIONS

The following tables reflect our income from operations for the three and nine months ended June 30, 2018 and July 1, 2017:

(dollar amounts in thousands)	Three months ended June 30, 2018	July 1, 2017 As Restated	$ Change	% Change
Net revenue	$268,834	$243,897	$24,937	10.2 %
Cost of sales	141,865	129,894	11,971	9.2 %
Gross profit	126,969	114,003	12,966	11.4 %
Selling, general and administrative	32,532	37,144	(4,612)	(12.4)%
Research and development	29,974	25,980	3,994	15.4 %
Impairment charges	—	35,207	(35,207)	N/A
Operating expenses	62,506	98,331	(35,825)	(36.4)%
Income from operations	$64,463	$15,672	$48,791	311.3 %

(dollar amounts in thousands)	Nine months ended June 30, 2018	July 1, 2017 As Restated	$ Change	% Change
Net revenue	$704,297	$593,149	$111,148	18.7 %
Cost of sales	380,679	318,456	62,223	19.5 %
Gross profit	323,618	274,693	48,925	17.8 %
Selling, general and administrative	92,679	95,747	(3,068)	(3.2)%
Research and development	88,881	72,505	16,376	22.6 %
Impairment charges	—	35,207	(35,207)	N/A
Operating expenses	181,560	203,459	(21,899)	(10.8)%
Income from operations	$142,058	$71,234	$70,824	99.4 %

Our net revenues for the three and nine months ended June 30, 2018 increased as compared to our net revenues for the three and nine months ended July 1, 2017. The increase in net revenue was primarily due to higher volume as a result of higher demand from our customers, particularly in our Capital Equipment segment, due to growing market demand in consumer, enterprise, automotive and industrial applications.

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

Net Revenue

Approximately 94.2% and 92.4% of our net revenue for the three months ended June 30, 2018 and July 1, 2017, respectively, was for shipments to customer locations outside of the U.S., primarily in the Asia/Pacific region. In the Asia/Pacific region, our customer base is also becoming more geographically concentrated as a result of economic and industry conditions. Approximately 49.9% and 38.8% of our net revenue for the three months ended June 30, 2018 and July 1, 2017, respectively, was for shipments to customers located in China.

Likewise, approximately 91.6% and 91.9% of our net revenue for the nine months ended June 30, 2018 and July 1, 2017, respectively, was for shipments to customer locations outside of the U.S., primarily in the Asia/Pacific region. Approximately 45.6% and 41.2% of our net revenue for the nine months ended June 30, 2018 and July 1, 2017, respectively, was for shipments to customers located in China.

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The following tables reflect net revenue by business segment for the three and nine months ended June 30, 2018 and July 1, 2017:

	Three months ended			
(dollar amounts in thousands)	June 30, 2018	July 1, 2017	$ Change	% Change
Capital Equipment	$229,462	$202,240	$27,222	13.5 %
APS	39,372	41,657	(2,285)	(5.5)%
Total net revenue	$268,834	$243,897	$24,937	10.2 %

	Nine months ended			
(dollar amounts in thousands)	June 30, 2018	July 1, 2017	$ Change	% Change
Capital Equipment	$578,197	$477,957	$100,240	21.0 %
APS	126,100	115,192	10,908	9.5 %
Total net revenue	$704,297	$593,149	$111,148	18.7 %

Capital Equipment

The following table reflects the components of Capital Equipment net revenue change between the three and nine months ended June 30, 2018 and July 1, 2017:

	June 30, 2018 vs. July 1, 2017					
	Three months ended			Nine months ended		
(in thousands)	Price	Volume	$ Change	Price	Volume	$ Change
Capital Equipment	$(11,797)	$39,019	$27,222	$(15,095)	$115,335	$100,240

For the three and nine months ended June 30, 2018, the higher Capital Equipment net revenue as compared to the prior year period was primarily due to higher volume. The higher sales volume was primarily due to growing market demand in consumer, enterprise, automotive and industrial applications. The higher sales volume was partially offset by unfavorable price variance primarily due to competition in the IC and LED markets.

APS

The following table reflects the components of APS net revenue change between the three and nine months ended June 30, 2018 and July 1, 2017:

	June 30, 2018 vs. July 1, 2017					
	Three months ended			Nine months ended		
(in thousands)	Price	Volume	$ Change	Price	Volume	$ Change
APS	$(450)	$(1,835)	$(2,285)	$(694)	$11,602	$10,908

For the three months ended June 30, 2018, the lower APS net revenue as compared to prior year period was primarily due to lower volume from EA/APMR Aftermarket.

For the nine months ended June 30, 2018, the higher APS net revenue as compared to prior year period was primarily due to higher contribution from sales of capillaries, spares and wedge bonder consumables.

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Gross Profit

The following tables reflect gross profit by reportable segment for the three and nine months ended June 30, 2018 and July 1, 2017:

(dollar amounts in thousands)	Three months ended			
	June 30, 2018	July 1, 2017 As Restated	$ Change	% Change
Capital Equipment	$104,847	$91,053	$13,794	15.1 %
APS	22,122	22,950	(828)	(3.6)%
Total gross profit	$126,969	$114,003	$12,966	11.4 %

(dollar amounts in thousands)	Nine months ended			
	June 30, 2018	July 1, 2017 As Restated	$ Change	% Change
Capital Equipment	$254,158	$209,273	$44,885	21.4 %
APS	69,460	65,420	4,040	6.2 %
Total gross profit	$323,618	$274,693	$48,925	17.8 %

The following tables reflect gross profit as a percentage of net revenue by reportable segments for the three and nine months ended June 30, 2018 and July 1, 2017:

	Three months ended		Basis Point
	June 30, 2018	July 1, 2017 As Restated	Change
Capital Equipment	45.7%	45.0 %	70
APS	56.2%	55.1 %	110
Total gross margin	47.2%	46.7 %	50

	Nine months ended		Basis Point
	June 30, 2018	July 1, 2017 As Restated	Change
Capital Equipment	44.0%	43.8 %	20
APS	55.1%	56.8 %	(170)
Total gross margin	45.9%	46.3 %	(40)

Capital Equipment

The following table reflects the components of Capital Equipment gross profit change between the three and nine months ended June 30, 2018 and July 1, 2017:

	June 30, 2018 vs. July 1, 2017 As Restated							
	Three months ended				Nine months ended			
(in thousands)	Price	Cost	Volume	$ Change	Price	Cost	Volume	$ Change
Capital Equipment	$(11,797)	$6,589	$19,002	$13,794	$(15,095)	$6,878	$53,102	$44,885

For the three and nine months ended June 30, 2018, the higher Capital Equipment gross profit as compared to the prior year period was primarily due to higher volume and lower cost. The higher sales volume was primarily due to growing market demand in consumer, enterprise, automotive and industrial applications. The lower cost was primarily due to favorable product mix and cost efficiency. The higher sales volume and lower cost were partially offset by unfavorable price variance primarily due to competition in IC and LED markets.

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APS

The following table reflects the components of APS gross profit change between the three and nine months ended June 30, 2018 and July 1, 2017:

	June 30, 2018 vs. July 1, 2017							
	Three months ended				Nine months ended			
(in thousands)	Price	Cost	Volume	$ Change	Price	Cost	Volume	$ Change
APS	$(450)	$(63)	$(315)	$(828)	$(694)	$471	$4,263	$4,040

For the three months ended June 30, 2018, the lower APS gross profit as compared to prior year period was primarily due to price reduction in tools and lower volume from EA/APMR Aftermarket.

For the nine months ended June 30, 2018, the higher APS gross profit as compared to prior year period was primarily due to higher contribution from sales of capillaries, spares and wedge bonder consumables.

Operating Expenses

The following tables reflect operating expenses as a percentage of net revenue for the three and nine months ended June 30, 2018 and July 1, 2017:

	Three months ended		Basis point
	June 30, 2018	July 1, 2017 As Restated	change
Selling, general & administrative	12.1%	15.2 %	(310)
Research & development	11.1%	10.7 %	40
Impairment charges	— %	14.4 %	(1,440)
Total	23.2%	40.3 %	(1,710)

	Nine months ended		Basis point
	June 30, 2018	July 1, 2017 As Restated	change
Selling, general & administrative	13.2%	16.1 %	(290)
Research & development	12.6%	12.2 %	40
Impairment charges	— %	5.9 %	(590)
Total	25.8%	34.2 %	(840)

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

For the three months ended June 30, 2018, lower SG&A expenses as compared to prior year period was primarily due to $2.1 million severance and restructuring expense in the prior period, $1.8 million net favorable variance in foreign exchange and $1.8 million lower professional fees. These were partially offset by inclusion of $1.1 million of expenses related to the recently acquired Lithography business.

For the nine months ended June 30, 2018, lower SG&A expenses as compared to prior year period was primarily due to $6.1 million lower staff costs and $2.1 million net favorable variance in foreign exchange. These were partially offset by inclusion of $3.1 million of expenses related to the recently acquired Lithography business, $0.8 million of net provision of doubtful debt, $0.8 million recovery of insurance claims in the previous period and $0.6 million lower net gain on disposal of fixed assets.

Research and Development (“R&D”)

For the three and nine months ended June 30, 2018, higher R&D expenses as compared to the prior year periods were primarily due to higher staff costs, higher investment in the development of Advanced Packaging products and inclusion of R&D expenses related to the recently acquired Lithography business.

Impairment Charges

During the three and nine months ended July 1, 2017, the Company recognized a non-cash impairment charge related to goodwill in the Electronics Assembly/Hybrid (former Assembléon) reporting unit.

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Interest Income and Expense

The following tables reflect interest income and interest expense for the three and nine months ended June 30, 2018 and July 1, 2017:

	Three months ended			
(dollar amounts in thousands)	June 30, 2018	July 1, 2017	$ Change	% Change
Interest income	$3,459	$1,751	$ 1,708	97.5 %
Interest expense	$(263)	$(264)	$ 1	(0.4)%

	Nine months ended			
(dollar amounts in thousands)	June 30, 2018	July 1, 2017	$ Change	% Change
Interest income	$8,420	$4,502	$ 3,918	87.0 %
Interest expense	$(799)	$(787)	$ (12)	1.5 %

For the three and nine months ended June 30, 2018, interest income was higher as compared to prior year periods. This was primarily due to higher interest rates and a larger average cash, cash equivalents and short-term investments balance.

Interest expense for the three and nine months ended June 30, 2018 and July 1, 2017 was attributable to the interest on financing obligation relating to our corporate headquarters, which was incurred subsequent to the completion of the building in December 2013 (Refer to Note 11 of Item 1).

Provision for Income Taxes

The following table reflects the provision for income taxes and the effective tax rate for the three and nine months ended June 30, 2018 and July 1, 2017:

	Three months ended		Nine months ended	
(dollar amounts in thousands)	June 30, 2018	July 1, 2017 As Restated	June 30, 2018	July 1, 2017 As Restated
Income tax expense/(benefit)	$7,282	$(17,657)	$122,494	$(9,933)
Effective tax rate	10.8 %	(102.9)%	81.9 %	(13.3)%

Please refer to Note 14 of Item 1 for discussion on the provision for income taxes and the effective tax rate for the three and nine months ended June 30, 2018 and July 1, 2017.

LIQUIDITY AND CAPITAL RESOURCES

The following table reflects total cash, cash equivalents, restricted cash and short-term investments as of June 30, 2018 and September 30, 2017:

	As of		
(dollar amounts in thousands)	June 30, 2018	September 30, 2017	Change
Cash and cash equivalents	$362,686	$ 392,410	$(29,724)
Restricted cash	514	530	(16)
Short-term investments	258,000	216,000	42,000
Total cash, cash equivalents, restricted cash and short-term investments	$621,200	$ 608,940	$12,260
Percentage of total assets	50.7 %	52.0 %	

The following table reflects a summary of the Consolidated Condensed Statement of Cash Flow information for the nine months ended June 30, 2018 and July 1, 2017:

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(in thousands)	Nine months ended June 30, 2018	July 1, 2017 As Restated
Net cash provided by operating activities	$ 93,843	$ 68,166
Net cash used in investing activities	(57,527)	(8,012)
Net cash used in financing activities	(65,805)	(805)
Effect of exchange rate changes on cash, cash equivalents and restricted cash	(251)	673
Changes in cash, cash equivalents and restricted cash	$ (29,740)	$ 60,022
Cash, cash equivalents and restricted cash, beginning of period	392,940	423,907
Cash, cash equivalents and restricted cash, end of period	$ 363,200	$ 483,929

Nine months ended June 30, 2018

Net cash provided by operating activities was primarily due to the combination of non-cash adjustments to net income of $48.2 million, increase in net change in operating assets and liabilities of $18.6 million and net income of $27.0 million. The increase in net change in operating assets and liabilities was primarily driven by an increase in income tax payable of $84.1 million. This was partially offset by an increase in accounts and notes receivable of $58.9 million, increase in inventory of $5.1 million, and a decrease in accounts payable, accrued expenses and other current liabilities of $1.9 million.

The increase in income tax payable was mainly due to additional tax payable on the repatriation of foreign earnings subsequent to the enactment of the Tax Cuts and Jobs Act (the "Act"). The increase in accounts receivables was due to higher sales in the third quarter of fiscal 2018 as compared to the fourth quarter of fiscal 2017 as well as timing of collections. The increase in net inventories was primarily due to variations in the timing of our customer orders.

Net cash used in investing activities was due to purchases of short-term investments of $487.0 million, and capital expenditures of $16.2 million. This was offset by the proceeds from the maturity of short-term investments of $445.0 million.

Net cash used in financing activities was primarily due to common stock repurchases of $65.3 million.

Nine months ended July 1, 2017 (As Restated)

Net cash provided by operating activities was primarily due to the combination of net income of $84.9 million, non-cash adjustments of $49.7 million and working capital changes of $(66.4) million. The change in working capital was primarily driven by an increase in accounts and notes receivable of $83.6 million, an increase in inventories of $46.4 million, and an increase in prepaid expenses and other current assets of $9.7 million, all related to the overall increase in sales. This was partially offset by a corresponding increase in accounts payable, accrued expenses and other current liabilities of $73.4 million, also primarily related to the increased sales.

Net cash used in investing activities was due to purchases of short-term investments of $170.0 million, capital expenditures of $22.1 million and an equity investment of $1.3 million. This was offset by the proceeds from the maturity of short-term investments of $184.0 million and the proceeds from sales of property, plant and equipment of

$1.4 million.

Net cash used in financing activities relates to the reversal of excess tax benefits of $0.7 million.

Fiscal 2018 Liquidity and Capital Resource Outlook

We expect our aggregate fiscal 2018 capital expenditures to be between $18.0 million and $20.0 million, of which approximately $16.2 million has been incurred through the third quarter. Expenditures are anticipated to be primarily used for R&D projects, enhancements to our manufacturing operations in Asia, improvements to our information technology infrastructure and leasehold improvements for our facilities.

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

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

As of June 30, 2018 and September 30, 2017, approximately $531.3 million and $565.0 million of cash, cash equivalents, and short-term investments were held by the Company's foreign subsidiaries, respectively. As a result of the Act, signed into law on December 22, 2017, the cash amounts as of June 30, 2018 are expected to be available for use in the U.S. without incurring additional U.S. income tax. Please refer to Note 14 of Item 1 for more details regarding the impact of the Act on our income taxes.

Share Repurchase Program

On August 15, 2017, the Company’s Board of Directors authorized a program (the "Program") to repurchase up to $100 million of the Company’s common stock on or before August 1, 2020. The Company has entered into a written trading plan under Rule 10b5-1 of the Exchange Act to facilitate repurchases under the Program. The Program may be suspended or discontinued at any time and is funded using the Company's available cash, cash equivalents and short-term investments. Under the Program, shares may be repurchased through open market and/or privately negotiated transactions at prices deemed appropriate by management. The timing and amount of repurchase transactions under the Program depend on market conditions as well as corporate and regulatory considerations.

During the three and nine months ended June 30, 2018, the Company repurchased a total of 1.8 million and 2.8 million shares of common stock under the Program at a cost of $42.6 million and $67.3 million, respectively. As of June 30, 2018, our remaining stock repurchase authorization under the Program was approximately $21.4 million.

On July 10, 2018, the Company's Board of Directors increased the share repurchase authorization under the Program by an additional $100 million.

Dividends

On June 14, 2018, the Board of Directors declared and authorized the initiation of a quarterly dividend of $0.12 per share of common stock. The first dividend payment of $8.2 million was made on July 16, 2018 to holders of record as of June 28, 2018. The declaration of any future cash dividend is at the discretion of the Board of Directors and will depend on the Company's financial condition, results of operations, capital requirements, business conditions and other factors, as well as a determination that cash dividends are in the best interests of the Company's stockholders.

Other Obligations and Contingent Payments

In accordance with U.S. generally accepted accounting principles, certain obligations and commitments are not required to be included in the Consolidated Condensed Balance Sheets and Statements of Operations. These obligations and commitments, while entered into in the normal course of business, may have a material impact on our liquidity. Certain of the following commitments as of June 30, 2018 are appropriately not included in the Consolidated Condensed Balance Sheets and Statements of Operations included in this Form 10-Q; however, they have been disclosed in the table below for additional information.

The Company’s other non-current liabilities in the Consolidated Condensed Balance Sheets consist primarily of deferred tax liabilities, gross long-term tax payable and retirement obligations. As of June 30, 2018, the Company had deferred tax liabilities of $27.3 million and long-term tax payable of $6.0 million of which the Company is unable to make a reasonably reliable estimate of the timing of payments due to uncertainties in the timing of tax audit outcomes; therefore, such amounts are not included in the below contractual obligation table. In addition, the Company has retirement obligations and other severances of $7.4 million which are payable on employee departures.

The following table presents certain payments due by the Company under contractual obligations with minimum firm commitments as of June 30, 2018:

		Payments due in			
(in thousands)	Total	Less than 1 year	1 - 3 years	3 - 5 years	More than 5 years
Inventory purchase obligations (1)	$149,414	$149,414	$ —	$ —	$ —
Operating lease obligations (2)	18,968	3,635	5,758	3,708	5,867
Long-term tax payable (3) (reflected on our Balance Sheets)	82,576	6,563	13,384	13,185	49,444
Asset retirement obligations (4)	1,509	118	366	—	1,025

(reflected on our Balance Sheets)					
Total	$252,467	$159,730	$ 19,508	$ 16,893	$ 56,336

(1) We order inventory components in the normal course of our business. A portion of these orders are non-cancellable and a portion may have varying penalties and charges in the event of cancellation.

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

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

In accordance with ASC No. 840, Leases ("ASC 840"), the Company was considered to be the owner of its headquarters during the construction phase due to its involvement in the asset construction. As a result of the Company's continued involvement during the lease term, the Company did not fulfill the criteria to apply sale-leaseback accounting under ASC 840. Therefore, at completion, the building remained on the Consolidated Condensed Balance Sheet, and the corresponding financing obligation was reclassified to long-term liability. As of June 30, 2018, we recorded a financing obligation of $16.2 million. The financing obligation is not reflected in the table above.

(3) Associated with the one-time transition tax of our foreign subsidiaries in relation to the Act. (Refer to Note 14 of Item 1).

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

Off-Balance Sheet Arrangements

Credit facilities and Bank Guarantees

On November 22, 2013, the Company obtained a $5.0 million credit facility with Citibank in connection with the issuance of bank guarantees for operational purposes. As of June 30, 2018, the outstanding amount is $2.9 million. In addition, the Company has other bank guarantees for operational purposes which are secured with corresponding deposits placed with the issuer banks. These amounts are shown as restricted cash in the Consolidated Condensed Balance Sheets.

As of June 30, 2018, we did not have any other off-balance sheet arrangements, such as contingent interests or obligations associated with variable interest entities.

Item 3. - QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Risk

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

Foreign Currency Risk

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

Based on our foreign currency exposure as of June 30, 2018, a 10.0% fluctuation could impact our financial position, results of operations or cash flows by $2.0 to $3.0 million. Our attempts to hedge against these risks may not be successful and may result in a material adverse impact on our financial results and cash flow.

We enter into foreign exchange forward contracts to hedge a portion of our forecasted foreign currency-denominated expenses in the normal course of business and, accordingly, they are not speculative in nature. These instruments generally mature within twelve months. We have foreign exchange forward contracts with a notional amount of $40.0 million outstanding as of June 30, 2018.

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Item 4. - CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our Chief Executive Officer and Interim Chief Financial Officer have concluded that our disclosure controls and procedures were not effective as of June 30, 2018 because of the material weaknesses in our internal control over financial reporting discussed below.

Material Weaknesses in Internal Control Over Financial Reporting

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis.

We identified the following two control deficiencies that each constitute a material weakness:

(i) Material weakness related to manual journal entries

We did not maintain effective controls over the recording and review of manual journal entries related to our warranty accrual and accounts payable. Specifically, effective control over the review of journal entries was not maintained as a result of management override of journal entries of the accrual for warranty and accounts payable. The management overrides of controls were identified during an internal investigation, which was concluded in May 2018, related to an unauthorized disbursement by a senior finance employee that was discovered after the end of the second fiscal quarter of 2018. We determined that manual journal entries initiated by this employee were made to correct the Company's failure to properly include labor costs in our warranty accrual, lacked supporting documentation and were accounted for incorrectly. In addition we determined that the manual journal entries to record accounts payable were based on falsified accounting records. This control deficiency resulted in the misstatement of our warranty expense and warranty accrual accounts and related financial disclosures as well as the misstatement of our cost of sales and accounts payable accounts, and in the restatement of the Company’s consolidated financial statements for the fiscal year ended September 30, 2017 and October 1, 2016 as well as the restatement of the consolidated condensed financial statements for the quarter ended December 30, 2017.

(ii) Material weakness related to cash disbursements

We did not maintain effective control over the Company’s cash disbursements. Specifically, effective control over the approval of cash disbursements was not maintained. This control deficiency did not result in a misstatement.

Additionally, these control deficiencies could result in additional misstatements of account balances or disclosures that would result in a material misstatement to the annual or interim consolidated financial statements that would not be prevented or detected. Accordingly, our management has determined that these control deficiencies constitute material weaknesses.

Management’s Plans for Remediation of the Material Weaknesses

In response to the material weaknesses identified above we have developed a plan with the oversight of the Audit Committee of the Board of Directors to remediate these material weaknesses. During the quarter ended June 30, 2018, we executed or are in the process of executing the following as part of our plan to remediate these material weaknesses:

(i) Material weakness related to manual journal entries

- Enhance the procedures and tighten grant of authority approval requirements for journal entries to improve precision of the review and accountability.
- Conduct town hall meetings throughout the Company's worldwide organization led by executive management to reinforce Company's corporate culture and policies and procedures.
- Provide additional training to finance personnel on roles and responsibilities, including line of communications in the event of concerns.
- Change certain finance management.

(ii) Material weakness related to cash disbursements

- Revamp bank mandate for certain entities to tighten approval limits for cash disbursement and introduce appropriate executive management as signers to improve accountability.

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- Provide additional training to finance personnel on roles and responsibilities, including line of communications in the event of concerns.

These material weaknesses will not be considered remediated until the applicable remedial controls operate for a sufficient period of time and management has concluded, through testing, that these controls are operating effectively.

Changes in Internal Control Over Financial Reporting

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

During the quarter ended June 30, 2018, we made these significant changes in internal control over financial reporting:

(i) Material weakness related to manual journal entries

- Enhanced procedures and tightened grant of authority approval requirements for journal entries to improve precision of review and accountability.

(ii) Material weakness related to cash disbursements

- Revamped bank mandate for certain entities to tighten approval limits for cash disbursements and mandated appropriate executive management as signers.

Except as described above, there has been no change in the Company's internal control over financial reporting during the three months ended June 30, 2018, that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

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PART II. - OTHER INFORMATION
Item 1A. - RISK FACTORS
Certain Risks Related to Our Business
There have been no material changes from the risk factors discussed in Part I, Item 1A, “Risk Factors”, of our 2017 amended Annual Report on Form 10-K/A, except as follows:
U.S. federal income tax reform could adversely affect us.
On December 22, 2017, the Tax Cuts and Jobs Act (the "Act") was signed into legislation. The Act, among other changes, reduces the U.S. federal corporate tax rate from 35% to 21%, implements a modified territorial tax system that includes a one-time transition tax on deemed repatriation of previously untaxed accumulated earnings and profits of certain foreign subsidiaries, and creates new taxes on certain foreign-sourced earnings.
At December 30, 2017, the Company has reflected the income tax effects of the Act for which the accounting under Accounting Standards Codification Topic 740, Income Taxes is complete. For those items for which the accounting is not yet complete, but for which a reasonable estimate could be made, we have recorded the provisional tax expense in the Statement of Operations. As described below, we have made a reasonable estimate of the effects on our existing deferred tax balances and the one-time transition tax. For these items, we recognized an aggregate net discrete tax provision of $105.7 million, comprised primarily of approximately $2.6 million from the re-measurement of U.S. deferred tax assets and liabilities using the relevant tax rate at which we expect them to reverse in the future and approximately $103.2 million from the one-time transition tax on deemed repatriation of previously untaxed accumulated earnings and profits of certain foreign subsidiaries. We continue to examine the impact of certain provisions of the Act that will become applicable in fiscal year 2019 related to base erosion anti-abuse tax (“BEAT”), global intangible low-taxed income (“GILTI”), and other provisions that could adversely affect our effective tax rate in the future. For the period ended June 30, 2018, there has been no material changes to the provisional tax expense. The Company will continue to monitor changes in state and local tax laws to determine if state and local taxing authorities intend to conform or deviate from changes to U.S. federal tax legislation as a result of the Act.

Item 2. - UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS
The following table summarizes the repurchases of common stock during the three months ended June 30, 2018 (in millions, except number of shares, which are reflected in thousands, and per share amounts):

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares That May Yet Be Purchased Under the Plans or Programs (1)
April 1, 2018 to April 28, 2018	322	$ 24.78	322	$ 56.0
April 29, 2018 to June 2, 2018	420	$ 22.88	420	$ 46.4
June 3, 2018 to June 30, 2018	1,051	$ 23.79	1,051	$ 21.4
For the three months ended June 30, 2018	1,793		1,793	

(1) On August 15, 2017, the Company announced that its Board of Directors approved a share repurchase program (the "Program") that authorizes the repurchase of up to $100 million of the Company's common shares, from time to time over the three year period ending August 1, 2020. The Company may purchase shares of its common stock through open market and privately negotiated transactions at prices deemed appropriate by management. The Company has entered into a written trading plan under Rule 10b5-1 of the Exchange Act to facilitate repurchases under the Program. The Program may be suspended or discontinued at any time and will be funded using the Company's available cash, cash equivalents and short-term investments. The timing and amount of repurchase transactions under the Program depend on market conditions as well as corporate and regulatory considerations. On

July 10, 2018, the Company's Board of Directors increased the share repurchase authorization under the Program by an additional $100 million.

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Item 6. - EXHIBITS

Exhibit No.	Description
31.1	Certification of Fusen Chen, Chief Executive Officer of Kulicke and Soffa Industries, Inc., pursuant to Rule 13a-14(a) or Rule15d-14(a).
31.2	Certification of Lester Wong, Interim Chief Financial Officer of Kulicke and Soffa Industries, Inc., pursuant to Rule 13a-14(a) or Rule 15d-14(a).
32.1	Certification of Fusen Chen, Chief Executive Officer of Kulicke and Soffa Industries, Inc., pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Lester Wong, Interim Chief Financial Officer of Kulicke and Soffa Industries, Inc., pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document.
101.SCH	XBRL Taxonomy Extension Schema Document.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.

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SIGNATURES

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

KULICKE AND SOFFA INDUSTRIES, INC.

Date: August 2, 2018 By: /s/ LESTER WONG

Lester Wong

Senior Vice President, Interim Chief Financial Officer and General Counsel

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