

# KULICKE & SOFFA INDUSTRIES INC

## **FORM 10-Q** (Quarterly Report)

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

FORM 10-Q

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

For the quarterly period ended April 1, 2017

OR

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

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

Commission File No. 0-121

**KULICKE AND SOFFA INDUSTRIES, INC.**

(Exact name of registrant as specified in its charter)

**PENNSYLVANIA**

(State or other jurisdiction of incorporation)

**23-1498399**

(IRS Employer  
Identification No.)

23A Serangoon North, Avenue 5, #01-01 K&S Corporate Headquarters, Singapore 554369

(Address of principal executive offices and Zip Code)

**(215) 784-6000**

(Registrant's telephone number, including area code)

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, 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

Non-accelerated filer

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

As of May 2, 2017, there were 70,986,049 shares of the Registrant's Common Stock, no par value, outstanding.

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**KULICKE AND SOFFA INDUSTRIES, INC.**

**FORM 10 – Q**

**April 1, 2017**

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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	
	April 1, 2017	October 1, 2016
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 435,203	\$ 423,907
Short-term investments	139,000	124,000
Accounts and other receivable, net of allowance for doubtful accounts of \$25 and \$506 respectively	169,748	130,455
Inventories, net	98,685	87,295
Prepaid expenses and other current assets	16,672	15,285
Total current assets	859,308	780,942
Property, plant and equipment, net	65,725	50,342
Goodwill	81,272	81,272
Intangible assets	47,766	50,810
Deferred income taxes	16,681	16,822
Equity investments	1,312	—
Other assets	2,010	2,256
<b>TOTAL ASSETS</b>	<b>\$ 1,074,074</b>	<b>\$ 982,444</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 80,570	\$ 41,813
Accrued expenses and other current liabilities	66,850	63,954
Income taxes payable	9,006	12,830
Total current liabilities	156,426	118,597
Financing obligation	15,965	16,701
Deferred income taxes	32,936	27,697
Other liabilities	14,102	12,931
<b>TOTAL LIABILITIES</b>	<b>\$ 219,429</b>	<b>\$ 175,926</b>
Commitments and contingent liabilities (Note 14)		
<b>SHAREHOLDERS' EQUITY:</b>		
Preferred stock, without par value:		
Authorized 5,000 shares; issued - none	\$ —	\$ —
Common stock, no par value:		
Authorized 200,000 shares; issued 83,785 and 83,231, respectively; outstanding 70,974 and 70,420 shares, respectively	505,003	498,676
Treasury stock, at cost, 12,811 and 12,811 shares, respectively	(139,407)	(139,407)
Retained earnings	494,599	449,975
Accumulated other comprehensive loss	(5,550)	(2,726)
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>\$ 854,645</b>	<b>\$ 806,518</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>\$ 1,074,074</b>	<b>\$ 982,444</b>

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



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

	Three months ended		Six months ended	
	April 1, 2017	April 2, 2016	April 1, 2017	April 2, 2016
Net revenue	\$ 199,613	\$ 156,400	\$ 349,252	\$ 264,934
Cost of sales	109,322	86,753	190,643	144,866
Gross profit	90,291	69,647	158,609	120,068
Selling, general and administrative	32,666	35,499	62,198	63,431
Research and development	25,020	22,439	46,525	46,633
Operating expenses	57,686	57,938	108,723	110,064
Income from operations	32,605	11,709	49,886	10,004
Interest income	1,579	701	2,751	1,323
Interest expense	(261)	(276)	(523)	(549)
Income before income taxes	33,923	12,134	52,114	10,778
Income tax expense	4,882	7,045	7,490	5,780
Net income	\$ 29,041	\$ 5,089	\$ 44,624	\$ 4,998
Net income per share:				
Basic	\$ 0.41	\$ 0.07	\$ 0.63	\$ 0.07
Diluted	\$ 0.40	\$ 0.07	\$ 0.62	\$ 0.07
Weighted average shares outstanding:				
Basic	70,964	70,389	70,909	70,563
Diluted	72,270	70,634	72,039	70,801

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

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

	Three months ended		Six months ended	
	April 1, 2017	April 2, 2016	April 1, 2017	April 2, 2016
Net income	\$ 29,041	\$ 5,089	\$ 44,624	\$ 4,998
Other comprehensive income:				
Foreign currency translation adjustment	1,138	2,670	(3,443)	1,540
Unrecognized actuarial (loss)/gain, Switzerland pension plan, net of tax	(42)	(42)	85	(14)
	1,096	2,628	(3,358)	1,526
Derivatives designated as hedging instruments:				
Unrealized gain/(loss) on derivative instruments, net of tax	1,120	54	(472)	(133)
Reclassification adjustment for loss on derivative instruments recognized, net of tax	477	44	1,006	133
Net decrease from derivatives designated as hedging instruments, net of tax	1,597	98	534	—
Total other comprehensive income/(loss)	2,693	2,726	(2,824)	1,526
Comprehensive income	\$ 31,734	\$ 7,815	\$ 41,800	\$ 6,524

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

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

	Six months ended	
	April 1, 2017	April 2, 2016
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$ 44,624	\$ 4,998
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	7,775	8,202
Equity-based compensation and employee benefits	6,680	2,035
Reversal of excess tax benefits / (Excess tax benefits) from stock-based compensation	742	(540)
Adjustment for doubtful accounts	(191)	(255)
Adjustment for inventory valuation	3,445	3,366
Deferred income taxes	4,638	(4,071)
Gain on disposal of property, plant and equipment	(1,050)	(57)
Unrealized foreign currency translation	(4,789)	1,294
Changes in operating assets and liabilities, net of assets and liabilities assumed in business combinations:		
Accounts and other receivable	(39,094)	(52,431)
Inventory	(17,556)	(4,834)
Prepaid expenses and other current assets	(1,141)	418
Accounts payable, accrued expenses and other current liabilities	41,007	33,358
Income taxes payable	(3,821)	7,858
Other, net	1,709	(320)
Net cash provided by / (used in) operating activities	42,978	(979)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of property, plant and equipment	(17,439)	(2,845)
Proceeds from sales of property, plant and equipment	1,352	1,053
Purchase of equity investments	(1,312)	—
Purchase of short-term investments	(139,000)	—
Maturity of short-term investments	124,000	—
Net cash used in investing activities	(32,399)	(1,792)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Payment on debts	(290)	(259)
Proceeds from exercise of common stock options	389	177
Repurchase of common stock	—	(14,551)
(Reversal of excess tax benefits) / Excess tax benefits from stock-based compensation	(742)	540
Net cash used in financing activities	(643)	(14,093)
Effect of exchange rate changes on cash and cash equivalents	1,360	243
Changes in cash and cash equivalents	11,296	(16,621)
Cash and cash equivalents at beginning of period	423,907	498,614
Cash and cash equivalents at end of period	\$ 435,203	\$ 481,993
<b>CASH PAID FOR:</b>		
Interest	\$ 523	\$ 549
Income taxes	\$ 5,454	\$ 2,580

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

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

**NOTE 1: BASIS OF PRESENTATION**

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

The interim consolidated condensed financial statements are unaudited and, in management's opinion, include all adjustments (consisting only of normal and recurring adjustments) necessary for a fair presentation of results for these interim periods. The interim consolidated condensed financial statements do not include all of the information and footnote disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) and should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended October 1, 2016, filed with the Securities and Exchange Commission, which includes Consolidated Balance Sheets as of October 1, 2016 and October 3, 2015, 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 October 1, 2016. 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 2017 quarters end on December 31, 2016, April 1, 2017, July 1, 2017 and September 30, 2017. In fiscal years consisting of 53 weeks, the fourth quarter will consist of 14 weeks. Fiscal 2016 quarters ended on January 2, 2016, April 2, 2016, July 2, 2016 and October 1, 2016.

***Nature of Business***

The Company designs, manufactures and sells capital equipment and expendable tools as well as services, maintains, repairs and upgrades equipment, all used to assemble semiconductor devices. The Company's operating results depend upon the capital and operating expenditures of semiconductor 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, expendable tools, including those sold by the Company. These downturns and slowdowns have in the past adversely affected the Company's operating results. The Company believes such volatility will continue to characterize the industry and the Company's operations in the future.

***Use of Estimates***

The preparation of consolidated 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 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 April 1, 2017 and October 1, 2016 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.

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

The Company's trade receivables result primarily from the sale of semiconductor equipment, related accessories and replacement parts, and expendable tools to a relatively small number of large manufacturers in a highly concentrated industry. Write-offs of uncollectible accounts have historically not been significant. 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 six 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.

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

***Cash Equivalents***

The Company considers all highly liquid investments with original maturities of three months or less when purchased to be cash equivalents. Cash equivalents are measured at fair value based on level one measurement, or quoted market prices, as defined by ASC No. 820, *Fair Value Measurements and Disclosures*. As of April 1, 2017 and October 1, 2016, fair value approximated the cost basis for cash equivalents.

***Investments***

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

***Equity Investments***

The Company applies the equity method of accounting to investments that provide it with ability to exercise 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 in gains (losses) on equity investments, net.

***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 expendable tools. Forecasted consumption is based upon internal projections, historical sales volumes, customer order activity and a review of consumable inventory levels at customers' facilities. The Company communicates forecasts of its future consumption to its suppliers and adjusts commitments to those suppliers accordingly. If required, the Company reserves the difference between the carrying value of its inventory and the lower of cost or 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; 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

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

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 six months ended April 1, 2017, no "triggering" events occurred.

***Accounting for Impairment of Goodwill***

The Company operates two reportable segments: Equipment and Expendable Tools. Goodwill was recorded for the acquisitions of Orthodyne Electronics Corporation ("Orthodyne") and Assembléon B.V. ("Assembléon") in 2009 and 2015, respectively.

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.

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. During the three and six months ended April 1, 2017, no triggering events occurred.

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 4 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. The Company's standard terms are *ex works* (the Company's factory), with title transferring to its customer at the Company's loading dock or upon embarkation. The Company has a small percentage of sales with other terms, and revenue is recognized in accordance with the terms of the related customer purchase order.

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.

**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 liability method. The Company records a valuation allowance to reduce its deferred tax assets to the amount it expects is more likely than not to be realized. While the Company has considered future taxable income and its ongoing tax planning strategies in assessing the need for the valuation allowance, if it were to determine that it would be able to realize its deferred tax assets in the future in excess of its net recorded amount, an adjustment to the deferred tax asset would increase income in the period 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 audit, including resolution of related appeals or litigation processes, if any. Step two, or measurement, is based on the largest amount of benefit, which is more likely than not to be realized on settlement with the taxing authority.

The Financial Accounting Standards Board ("FASB") has issued Accounting Standard Update ("ASU") 2015-17, *Income Taxes (Topic 740)*, regarding the presentation of deferred income taxes. Under the new standard, both deferred tax liabilities and assets are required to be classified as noncurrent in a classified balance sheet. ASU 2015-17 will become effective for fiscal years, and the interim periods within those years, beginning after December 15, 2016 (our fiscal 2018), with early adoption allowed. During the first quarter of fiscal 2016, we elected to prospectively adopt ASU 2015-17, thus reclassifying current deferred taxes to noncurrent on the accompanying Consolidated Condensed Balance Sheet. The prior reporting period was not retrospectively adjusted.

***Equity-Based Compensation***

The Company accounts for equity-based compensation under the provisions of ASC No. 718, *Compensation - Stock Compensation* ("ASC 718"). ASC 718 requires the recognition of the fair value of the equity-based compensation in net income. Compensation expense associated with market-based restricted stock is determined using a Monte-Carlo valuation model, and compensation expense associated with time-based and performance-based restricted stock is determined based on the number of shares granted and the fair value on the date of grant. The fair value of the Company's stock option awards are estimated using a Black-Scholes option valuation model. In addition, the calculation of equity-based compensation costs requires that the Company estimate the number of awards that will be forfeited during the vesting period. The fair value of equity-based awards is amortized over the vesting period of the award and the Company elected to use the straight-line method for awards granted after the adoption of ASC 718.

***Earnings per Share***

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

In accordance with ASC No. 260.10.55, *Earnings per Share - Implementation & Guidance*, the Company treats all outstanding unvested share-based payment awards that contain rights to nonforfeitable dividends as participating in undistributed earnings with common shareholders. Awards of this nature are considered participating securities and the two-class method of computing basic and diluted EPS must be applied.

***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

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and related deferred tax liabilities, useful lives of plant and equipment, and amortizable lives of acquired intangible assets. Any excess of the purchase consideration over the identified fair value of the assets and liabilities acquired is recognized as goodwill. The valuation of these tangible and identifiable intangible assets and liabilities is subject to further management review and may change materially between the preliminary allocation and end of the purchase price allocation period.

***Restructuring charges***

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

***Recent Accounting Pronouncements***

***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. This ASU will be effective for us beginning in our first quarter of 2019. Early adoption is permitted beginning in our first quarter of 2018. We do not expect the adoption of the ASU itself to have a material impact on our financial statements. We are currently evaluating the timing of the adoption of this ASU.

***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 public business entities in fiscal years beginning after December 15, 2017 (our fiscal 2019), including interim periods within those years, with an option to early adopt. 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 its subsidiaries as of the adoption date. We are currently evaluating the timing of the adoption of this ASU.

***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. This ASU will be effective for us beginning in our first quarter of 2018. We are currently evaluating the impact of the adoption of this ASU.

***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 2020 and early adoption is permitted. The adoption of this ASU will result in an increase to 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 timing and other 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.

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

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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 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.

*Business Combinations*

In January 2017, the FASB issued ASU 2017-01, Business Combinations (Topic 805): Clarifying the Definition of a Business. The new guidance 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 do not expect the adoption of this ASU itself to have a material impact on our financial statements. We are currently evaluating the timing of the adoption of this ASU.

*Intangibles—Goodwill and Other*

In January 2017, the FASB issued ASU 2017-04, Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment. The new guidance eliminates the requirement to perform a hypothetical purchase price allocation to measure goodwill impairment. Under the new 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. We are currently evaluating the impact of the adoption of this ASU 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. This ASU will be effective for us beginning in our first quarter of 2019 and early adoption is permitted. We do not expect the adoption of this ASU itself to 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”). The Company must adopt ASU 2016-08, ASU 2016-10, ASU 2016-12 and ASU 2016-20 with ASU 2014-09 (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 permits companies to early adopt the new standard, but not before annual reporting periods beginning after December 15, 2016. The Company will not early adopt the new standard and therefore the new standard will be effective for the Company in the first quarter of its fiscal 2019. We have made progress in our review of 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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**NOTE 2: RESTRUCTURING**

The Company has 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. The accrued cost as at April 1, 2017 will be paid between fiscal 2017 and fiscal 2018.

The following table is a summary of activity related to the Company's restructuring and other charges for the three and six months ended April 1, 2017 and April 2, 2016 :

<i>(in thousands)</i>	Three months ended				Six months ended			
	April 1, 2017				April 1, 2017			
	Beginning of period <sup>(1)</sup>	Expenses <sup>(2)</sup>	Payments	End of period <sup>(1)</sup>	Beginning of period <sup>(1)</sup>	Expenses <sup>(2)</sup>	Payments	End of period <sup>(1)</sup>
Severance and benefits	\$ —	\$ —	\$ —	\$ —	\$ 37	\$ —	\$ (37)	\$ —
Other exit costs	3,633	—	(1,575)	2,058	6,525	—	(4,467)	2,058
	<u>\$ 3,633</u>	<u>\$ —</u>	<u>\$ (1,575)</u>	<u>\$ 2,058</u>	<u>\$ 6,562</u>	<u>\$ —</u>	<u>\$ (4,504)</u>	<u>\$ 2,058</u>

<i>(in thousands)</i>	Three months ended				Six months ended			
	April 2, 2016				April 2, 2016			
	Beginning of period <sup>(1)</sup>	Expenses <sup>(2)</sup>	Payments	End of period <sup>(1)</sup>	Beginning of period <sup>(1)</sup>	Expenses <sup>(2)</sup>	Payments	End of period <sup>(1)</sup>
Severance and benefits	\$ 665	\$ 46	\$ (545)	\$ 166	\$ 1,538	\$ 661	\$ (2,033)	\$ 166

(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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**NOTE 3: BALANCE SHEET COMPONENTS**

The following tables reflect the components of significant balance sheet accounts as of April 1, 2017 and October 1, 2016 :

<i>(in thousands)</i>	As of	
	April 1, 2017	October 1, 2016
Short term investments, available-for-sale <sup>(1)</sup>	\$ 139,000	\$ 124,000
Inventories, net:		
Raw materials and supplies <sup>(2)</sup>	\$ 32,261	\$ 26,876
Work in process <sup>(2)</sup>	36,788	24,333
Finished goods <sup>(2)</sup>	50,164	57,166
	119,213	108,375
Inventory reserves	(20,528)	(21,080)
	\$ 98,685	\$ 87,295
Property, plant and equipment, net:		
Land	\$ 2,182	\$ —
Buildings and building improvements	50,107	34,472
Leasehold improvements	9,685	19,963
Data processing equipment and software <sup>(2)</sup>	34,323	32,975
Machinery, equipment, furniture and fixtures	63,124	54,730
	159,421	142,140
Accumulated depreciation <sup>(2)</sup>	(93,696)	(91,798)
	\$ 65,725	\$ 50,342
Accrued expenses and other current liabilities:		
Wages and benefits	\$ 26,427	\$ 24,248
Accrued customer obligations <sup>(3)</sup>	16,930	13,077
Commissions and professional fees	8,064	10,908
Deferred rent	1,940	2,920
Severance <sup>(4)</sup>	878	1,296
Other	12,611	11,505
	\$ 66,850	\$ 63,954

(1) All short-term investments were classified as available-for-sale and were measured at fair value based on level one measurement, or quoted market prices, as defined by ASC 820. As of April 1, 2017, fair value approximated the cost basis for short-term investments. The Company did not recognize any realized gains or losses on the sale of investments during the three and six months ended April 1, 2017 and April 2, 2016.

(2) Certain balances as at October 1, 2016 relating to Inventories and Property, plant and equipment have been reclassified for comparative purposes. These reclassifications have no impact to the Consolidated Condensed Balance Sheet as at October 1, 2016.

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

(4) Includes the restructuring plan discussed in Note 2, severance payable in connection with the October 2015 retirement of the Company's CEO of \$0.5 million (as of October 1, 2016: \$0.8 million), and other severance payments.

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**NOTE 4: GOODWILL AND INTANGIBLE ASSETS****Goodwill**

Intangible assets classified as goodwill are not amortized. The goodwill established in connection with our acquisitions of Assembléon and Orthodyne 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 Assembléon and Orthodyne, 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 2016 and concluded that no impairment charge was required. During the six months ended April 1, 2017, 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. Our calculation of the estimated fair value of goodwill was based upon assumptions believed to be reasonable, but which are inherently uncertain and unpredictable. We periodically review these assumptions in light of actual and expected performance and as part of a strategic review of these businesses. A strategic review is currently underway and although no conclusions have been reached, if we were to determine that we have not realized the expected value of the goodwill related to the acquisitions, we may be required to write down or write off all such intangible assets or goodwill, which could be a material amount.

The following table summarizes the Company's recorded goodwill as of April 1, 2017 and October 1, 2016 :

<i>(in thousands)</i>	As of	
	April 1, 2017	October 1, 2016
Goodwill	\$ 81,272	\$ 81,272

**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 April 1, 2017 and October 1, 2016 :

<i>(dollar amounts in thousands)</i>	As of		Average estimated useful lives <i>(in years)</i>
	April 1, 2017	October 1, 2016	
Technology	\$ 74,080	\$ 74,080	7.0 to 15.0
Accumulated amortization	(39,332)	(37,969)	
Net technology	\$ 34,748	\$ 36,111	
Customer relationships	\$ 36,968	\$ 36,968	5.0 to 6.0
Accumulated amortization	(25,925)	(24,455)	
Net customer relationships	\$ 11,043	\$ 12,513	
Trade and brand names	\$ 7,515	\$ 7,515	7.0 to 8.0
Accumulated amortization	(5,540)	(5,329)	
Net trade and brand name	\$ 1,975	\$ 2,186	
Other intangible assets	\$ 2,500	\$ 2,500	1.9
Accumulated amortization	(2,500)	(2,500)	
Net other intangible assets	\$ —	\$ —	
Net intangible assets	\$ 47,766	\$ 50,810	

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The following table reflects estimated annual amortization expense related to intangible assets as of April 1, 2017 :

<i>(in thousands)</i>	As of
	April 1, 2017
Remaining fiscal 2017	\$ 3,044
Fiscal 2018	6,086
Fiscal 2019	6,086
Fiscal 2020	6,086
Fiscal 2021 and onwards	26,464
Total amortization expense	\$ 47,766

**NOTE 5: CASH, CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS**

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

Cash, cash equivalents and short-term investments consisted of the following as of April 1, 2017 :

<i>(in thousands)</i>	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
<b>Current assets:</b>				
Cash	\$ 68,652	\$ —	\$ —	\$ 68,652
<b>Cash equivalents:</b>				
Money market funds	174,848	—	—	174,848
Time deposits	166,703	—	—	166,703
Commercial paper	25,000	—	—	25,000
<b>Total cash and cash equivalents</b>	<b>\$ 435,203</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 435,203</b>
<b>Short-term investments:</b>				
Time deposits	89,000	—	—	89,000
Deposits <sup>(1)</sup>	50,000	—	—	50,000
<b>Total short-term investments</b>	<b>139,000</b>	<b>—</b>	<b>—</b>	<b>139,000</b>
<b>Total cash, cash equivalents and short-term investments</b>	<b>\$ 574,203</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 574,203</b>

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

**KULICKE AND SOFFA INDUSTRIES, INC.**  
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Cash, cash equivalents and short-term investments consisted of the following as of October 1, 2016 :

<i>(in thousands)</i>	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
<b>Current assets:</b>				
Cash	\$ 118,335	\$ —	\$ —	\$ 118,335
<b>Cash equivalents:</b>				
Money market funds	152,961	—	—	152,961
Time deposits <sup>(1)</sup>	133,611	—	—	133,611
Commercial paper	19,000	—	—	19,000
<b>Total cash and cash equivalents</b>	<b>\$ 423,907</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 423,907</b>
<b>Short-term investments</b>				
Time deposits <sup>(1)</sup>	124,000	—	—	124,000
<b>Total short-term investments</b>	<b>124,000</b>	<b>—</b>	<b>—</b>	<b>124,000</b>
<b>Total cash, cash equivalents and short-term investments</b>	<b>\$ 547,907</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 547,907</b>

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

**NOTE 6: EQUITY INVESTMENTS**

Equity investments consisted of the following as of April 1, 2017 and October 1, 2016 :

<i>(in thousands)</i>	As of	
	April 1, 2017	October 1, 2016
Equity method investment	\$ 1,312	\$ —

In March 2017, the Company made an investment in one of our strategic suppliers which provides the Company with the ability to exercise influence over the investment vehicle, in which it lacks controlling financial interest and is not a primary beneficiary. Our share of gains and losses in the equity method investment will be recognized on a one-quarter lag from the next quarter ending July 1, 2017. We will reflect these as gains (losses) on equity investments, net, in the accompanying Consolidated Condensed Statements of Operations.

**NOTE 7: 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 six months ended April 1, 2017.

***Fair Value Measurements on a Nonrecurring Basis***

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

***Fair Value of Financial Instruments***

Amounts reported as cash equivalents, short-term investments, accounts receivables, prepaid expenses and other current assets, accounts payable and accrued expenses approximate fair value.

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**NOTE 8: 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 12 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 April 1, 2017 and October 1, 2016 was as follows:

<i>(in thousands)</i>	As of			
	April 1, 2017		October 1, 2016	
	Notional Amount	Fair Value Asset Derivatives <sup>(1)</sup>	Notional Amount	Fair Value Liability Derivatives <sup>(2)</sup>
<b>Derivatives designated as hedging instruments:</b>				
Foreign exchange forward contracts <sup>(3)</sup>	\$ 32,322	\$ 72	28,997	462
<b>Total derivatives</b>	<b>\$ 32,322</b>	<b>\$ 72</b>	<b>\$ 28,997</b>	<b>\$ 462</b>

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

(2) 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.

(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 six months ended April 1, 2017 and April 2, 2016 are as follows:

<i>(in thousands)</i>	Three months ended		Six months ended	
	April 1, 2017	April 2, 2016	April 1, 2017	April 2, 2016
<b>Foreign exchange forward contract in cash flow hedging relationships:</b>				
Net gain/(loss) recognized in OCI, net of tax <sup>(1)</sup>	\$ 1,120	\$ 54	\$ (472)	\$ (133)
Net loss reclassified from accumulated OCI into income, net of tax <sup>(2)</sup>	\$ (477)	\$ (44)	\$ (1,006)	\$ (133)
Net gain recognized in income <sup>(3)</sup>	\$ —	\$ —	\$ —	\$ —

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

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

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

**NOTE 9: 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.

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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 April 1, 2017, the financing obligation related to the Building is \$16.6 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 April 1, 2017, the outstanding amount is \$3.2 million.

On March 21, 2016, the Company entered into an Uncommitted Revolving Credit Agreement with United Overseas Bank Limited, New York Agency ("UOB"), providing for a \$25 million revolving credit facility (the "2016 Credit Facility"). The 2016 Credit Facility is an unsecured revolving credit facility of \$25 million with an initial term of one year, and has been extended on the same terms by another year until March 20, 2018. The proceeds of the 2016 Credit Facility may be used for the Company's general corporate purposes. As of April 1, 2017, there was no outstanding amount under the 2016 Credit Facility.

**NOTE 10: 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 Plans during the three and six months ended April 1, 2017 and April 2, 2016:

<i>(in thousands)</i>	Three months ended		Six months ended	
	April 1, 2017	April 2, 2016	April 1, 2017	April 2, 2016
Cash	\$ 504	\$ 425	\$ 917	\$ 818

***Stock Repurchase Program***

On August 14, 2014, 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 14, 2017. 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. 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 six months ended April 1, 2017, there were no stock repurchases under the Program. Stock repurchases are 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.

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

**Accumulated Other Comprehensive Loss**

The following table reflects accumulated other comprehensive (loss) / income reflected on the Consolidated Condensed Balance Sheets as of April 1, 2017 and October 1, 2016 :

<i>(in thousands)</i>	As of	
	April 1, 2017	October 1, 2016
(Loss) / Gain from foreign currency translation adjustments	\$ (2,981)	\$ 462
Unrecognized actuarial loss Switzerland pension plan, net of tax	(2,641)	(2,726)
Unrealized gain / (loss) on hedging	72	(462)
Accumulated other comprehensive loss	\$ (5,550)	\$ (2,726)

**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”). Under these Equity Plans, market-based share awards (collectively, “market-based restricted stock”), time-based share awards (collectively, “time-based restricted stock”), performance-based share awards (collectively, “performance-based restricted stock”), stock options, or common stock have been granted at 100% of the market price of the Company's common stock on the date of grant. As of April 1, 2017, 5.1 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 under the 2017 Equity Plan.

- Market-based restricted stock 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 market-based restricted stock 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.
- In general, stock options and time-based restricted stock 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.
- In general, performance-based restricted stock (“PSU”) entitles the employee to receive common shares of the Company on the three-year anniversary of the grant date (if employed by the Company) if return on invested capital and revenue growth targets set by the Management Development and Compensation Committee (“MDCC”) of the Board of Directors on the date of grant are met. If return on invested capital and revenue growth targets are not met, performance-based restricted stock does not vest. Certain PSUs vest based on achievement of strategic goals over a certain time period or periods set by the MDCC. If the strategic goals are not achieved, the PSUs do not vest.

Equity-based compensation expense recognized in the Consolidated Condensed Statements of Operations for the three and six months ended April 1, 2017 and April 2, 2016 was based upon awards ultimately expected to vest. In accordance with ASC No. 718, *Stock Based Compensation* , forfeitures have been estimated at the time of grant and were based upon historical experience. The Company reviews the forfeiture rates periodically and makes adjustments as necessary.

The following table reflects restricted stock and common stock granted during the three and six months ended April 1, 2017 and April 2, 2016 :

<i>(shares in thousands)</i>	Three months ended		Six months ended	
	April 1, 2017	April 2, 2016	April 1, 2017	April 2, 2016
Market-based restricted stock	8	—	381	166
Time-based restricted stock	8	10	704	581
Common stock	11	32	25	32
Equity-based compensation in shares	27	42	1,110	779

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

The following table reflects total equity-based compensation expense, which includes restricted stock, stock options and common stock, included in the Consolidated Condensed Statements of Operations during the three and six months ended April 1, 2017 and April 2, 2016 :

<i>(in thousands)</i>	Three months ended		Six months ended	
	April 1, 2017	April 2, 2016	April 1, 2017	April 2, 2016
Cost of sales	\$ 106	\$ 97	\$ 247	\$ 225
Selling, general and administrative <sup>(1)</sup>	2,450	1,460	5,184	690
Research and development	522	416	1,249	1,120
Total equity-based compensation expense	<u>\$ 3,078</u>	<u>\$ 1,973</u>	<u>\$ 6,680</u>	<u>\$ 2,035</u>

(1) The selling, general and administrative expense for the six months ended April 2, 2016 , includes the reversal of a \$2.0 million expense due to the forfeiture of stock awards in connection with the October 2015 retirement of the Company's CEO.

The following table reflects equity-based compensation expense, by type of award, for the three and six months ended April 1, 2017 and April 2, 2016 :

<i>(in thousands)</i>	Three months ended		Six months ended	
	April 1, 2017	April 2, 2016	April 1, 2017	April 2, 2016
Market-based restricted stock	\$ 855	\$ 388	\$ 1,788	\$ (993)
Time-based restricted stock	2,044	1,226	4,533	2,712
Performance-based restricted stock	—	—	—	(43)
Common stock	179	359	359	359
Total equity-based compensation expense <sup>(1)</sup>	<u>\$ 3,078</u>	<u>\$ 1,973</u>	<u>\$ 6,680</u>	<u>\$ 2,035</u>

(1) The equity-based compensation expense for the six months ended April 2, 2016 , includes the reversal of a \$2.0 million expense due to the forfeiture of stock awards in connection with the October 2015 retirement of the Company's CEO.

**NOTE 11: EARNINGS PER SHARE**

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

The following tables reflect a reconciliation of the shares used in the basic and diluted net income per share computation for the three and six months ended April 1, 2017 and April 2, 2016 :

<i>(in thousands, except per share data)</i>	Three months ended			
	April 1, 2017		April 2, 2016	
	Basic	Diluted	Basic	Diluted
<b>NUMERATOR:</b>				
Net income	\$ 29,041	\$ 29,041	\$ 5,089	\$ 5,089
<b>DENOMINATOR:</b>				
Weighted average shares outstanding - Basic	<u>70,964</u>	70,964	<u>70,389</u>	70,389
Stock options		19		27
Time-based restricted stock		612		172
Market-based restricted stock		675		46
Weighted average shares outstanding - Diluted		<u>72,270</u>		<u>70,634</u>
<b>EPS:</b>				
Net income per share - Basic	<u>\$ 0.41</u>	\$ 0.41	<u>\$ 0.07</u>	\$ 0.07
Effect of dilutive shares		(0.01)		—
Net income per share - Diluted		<u>\$ 0.40</u>		<u>\$ 0.07</u>

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

<i>(in thousands, except per share data)</i>	Six months ended			
	April 1, 2017		April 2, 2016	
	Basic	Diluted	Basic	Diluted
<b>NUMERATOR:</b>				
Net income	\$ 44,624	\$ 44,624	\$ 4,998	\$ 4,998
<b>DENOMINATOR:</b>				
Weighted average shares outstanding - Basic	70,909	70,909	70,563	70,563
Stock options		23		29
Time-based restricted stock		510		172
Market-based restricted stock		597		37
Weighted average shares outstanding - Diluted		72,039		70,801
<b>EPS:</b>				
Net income per share - Basic	\$ 0.63	\$ 0.63	\$ 0.07	\$ 0.07
Effect of dilutive shares		(0.01)		—
Net income per share - Diluted		\$ 0.62		\$ 0.07

**NOTE 12: INCOME TAXES**

The following table reflects the provision for income taxes and the effective tax rate for the three and six months ended April 1, 2017 and April 2, 2016 :

<i>(dollar amounts in thousands)</i>	Three months ended		Six months ended	
	April 1, 2017	April 2, 2016	April 1, 2017	April 2, 2016
Income before income taxes	\$ 33,923	\$ 12,134	\$ 52,114	\$ 10,778
Income tax expense	4,882	7,045	7,490	5,780
Net income	\$ 29,041	\$ 5,089	\$ 44,624	\$ 4,998
Effective tax rate	14.4%	58.1%	14.4%	53.6%

For the six months ended April 1, 2017, the effective income tax rate differed from the federal statutory tax rate primarily due to tax benefits from profits in foreign operations subject to a lower statutory tax rate than the federal rate, tax benefits from domestic research expenditures, and the impact of tax holidays, partially offset by an increase for deferred taxes on unremitted earnings, foreign withholding taxes, and an increase in valuation allowance against certain foreign deferred tax assets.

For the six months ended April 2, 2016, the effective income tax rate differed from the federal statutory tax rate primarily due to a tax liability arising from a settlement with a foreign tax authority, an increase for deferred taxes on unremitted earnings, foreign withholding taxes, and an increase in valuation allowance against certain foreign deferred tax assets, partially offset by tax benefits from profits in foreign operations subject to a lower statutory tax rate than the U.S. statutory tax rate, tax benefits from domestic research expenditures, and the impact of tax holidays.

The decrease in tax expense for the three months ended April 1, 2017 of \$4.9 million from the tax expense for the three months ended April 2, 2016 of \$7.0 million was primarily due to a settlement reached with a foreign tax authority giving rise to additional tax liability in fiscal 2016, partially offset by higher quarter-to-date profitability. The increase in tax expense for the six months ended April 1, 2017 of \$7.5 million from the tax expense for the six months ended April 2, 2016 of \$5.8 million was primarily due to higher year-to-date profitability, partially offset by a change in tax law resulting in a one-time tax benefit and a settlement reached with a foreign tax authority giving rise to additional tax liability in fiscal 2016.

The Company's future effective tax rate would be affected if earnings were lower than anticipated in countries where it has lower statutory rates and higher than anticipated in countries where it has higher statutory rates, by changes in the valuation of its deferred tax assets and liabilities, or by changes in tax laws, regulations, accounting principles, or interpretations thereof. In addition, changes in assertion for foreign earnings permanently or non-permanently reinvested as a result of changes in facts and circumstances could significantly impact the effective tax rate. The Company regularly assesses the effects resulting from these factors to determine the adequacy of its provision for income taxes.

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

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

**NOTE 13: SEGMENT INFORMATION**

The Company operates two reportable segments: Equipment and Expendable Tools. The Equipment segment manufactures and sells a line of ball bonders, wedge bonders, advanced packaging and electronic assembly solutions. The Company also services, maintains, repairs and upgrades its equipment. The Expendable Tools segment manufactures and sells a variety of expendable tools for a broad range of semiconductor packaging applications.

The following table reflects operating information by segment for the three and six months ended April 1, 2017 and April 2, 2016 :

<i>(in thousands)</i>	Three months ended		Six months ended	
	April 1, 2017	April 2, 2016	April 1, 2017	April 2, 2016
<b>Net revenue:</b>				
Equipment	\$ 180,979	\$ 141,062	\$ 313,958	\$ 234,036
Expendable Tools	18,634	15,338	35,294	30,898
Net revenue	199,613	156,400	349,252	264,934
<b>Income from operations:</b>				
Equipment	28,069	7,716	40,743	1,290
Expendable Tools	4,536	3,993	9,143	8,714
Income from operations	\$ 32,605	\$ 11,709	\$ 49,886	\$ 10,004

The following table reflects assets by segment as of April 1, 2017 and October 1, 2016 :

<i>(in thousands)</i>	As of	
	April 1, 2017	October 1, 2016
<b>Segment assets:</b>		
Equipment	\$ 987,273	\$ 901,316
Expendable Tools	86,801	81,128
Total assets	\$ 1,074,074	\$ 982,444

The following tables reflect capital expenditures for the three and six months ended April 1, 2017 and April 2, 2016 , and depreciation expense for the three and six months ended April 1, 2017 and April 2, 2016 :

<i>(in thousands)</i>	Three months ended		Six months ended	
	April 1, 2017	April 2, 2016	April 1, 2017	April 2, 2016
<b>Capital expenditures:</b>				
Equipment	\$ 13,454	\$ 1,078	\$ 15,058	\$ 2,149
Expendable Tools	2,423	444	3,048	767
Capital expenditures	\$ 15,877	\$ 1,522	\$ 18,106	\$ 2,916
<b>Depreciation expense:</b>				
<i>(in thousands)</i>	Three months ended		Six months ended	
	April 1, 2017	April 2, 2016	April 1, 2017	April 2, 2016
Equipment	\$ 1,782	\$ 1,925	\$ 3,672	\$ 3,731
Expendable Tools	528	561	1,059	1,140
Depreciation expense	\$ 2,310	\$ 2,486	\$ 4,731	\$ 4,871

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

**NOTE 14: COMMITMENTS, CONTINGENCIES AND CONCENTRATIONS**

***Warranty Expense***

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

The following table reflects the reserve for warranty activity for the three and six months ended April 1, 2017 and April 2, 2016 :

<i>(in thousands)</i>	Three months ended		Six months ended	
	April 1, 2017	April 2, 2016	April 1, 2017	April 2, 2016
Reserve for warranty, beginning of period	\$ 4,102	\$ 1,617	\$ 4,138	\$ 1,856
Provision for warranty	3,020	972	3,627	1,358
Warranty costs paid	(744)	(718)	(1,387)	(1,343)
Reserve for warranty, end of period	\$ 6,378	\$ 1,871	\$ 6,378	\$ 1,871

***Other Commitments and Contingencies***

The following table reflects obligations not reflected on the Consolidated Condensed Balance Sheet as of April 1, 2017 :

<i>(in thousands)</i>	Payments due by fiscal year					
	Total	2017	2018	2019	2020	thereafter
Inventory purchase obligation (1)	\$ 178,187	\$ 178,187	\$ —	\$ —	\$ —	\$ —
Operating lease obligations (2)	21,164	2,063	3,274	2,530	2,412	10,885
Total	\$ 199,351	\$ 180,250	\$ 3,274	\$ 2,530	\$ 2,412	\$ 10,885

- (1) The Company orders inventory components in the normal course of its business. A portion of these orders are non-cancelable, 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 April 1, 2017 , we recorded a financing obligation related to the Building of \$16.6 million (see Note 9 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 six months ended April 1, 2017 and April 2, 2016 :

	Six months ended	
	April 1, 2017	April 2, 2016
Haoseng Industrial Company Limited (1)	*	15.8%
STATS ChipPAC Ltd	*	10.1%

(1) Distributor of the Company's products.

\* Represented less than 10% of total net revenue

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

The following table reflects significant customer concentrations as a percentage of total accounts receivable as of April 1, 2017 and April 2, 2016 :

	As of	
	April 1, 2017	April 2, 2016
Haoseng Industrial Company Limited (1)	11.8%	19.8%
Super Power International Ltd (1)	10.6%	*
STATS ChipPAC Ltd	*	14.0%
Siliconware Precision Industries Co. Limited	*	13.1%

(1) Distributor of the Company's products.

\* Represented less than 10% of total accounts receivable

**NOTE 15: SUBSEQUENT EVENTS**

On April 5, 2017 , the Company entered into foreign exchange forward contracts with notional amount of \$10.6 million . We entered into these foreign exchange forward contracts to hedge a portion of our forecasted foreign currency-denominated expenses in the normal course of business and, accordingly, they are not speculative in nature. These foreign exchange forward contracts have maturities of up to twelve months .

## 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, the continuing transition from gold to copper wire bonding and other new 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 expendable tools.*

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

*Forward-looking statements are based on current expectations and involve risks and uncertainties. Our future results could differ significantly from those expressed or implied by our forward-looking statements. These risks and uncertainties include, without limitation, those described below and under the heading "Risk Factors" in our Annual Report on Form 10-K for the fiscal year ended October 1, 2016 (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 expendable tools used to assemble semiconductor devices, including integrated circuits ("ICs"), high and low powered discrete devices, light-emitting diodes ("LEDs"), and power modules. We also service, maintain, repair and upgrade our equipment. Our customers primarily consist of semiconductor device manufacturers, integrated device manufacturers ("IDMs"), outsourced semiconductor assembly and test providers ("OSATs"), other electronics manufacturers and automotive electronics suppliers.

We operate two main business segments, Equipment and Expendable Tools. Our goal is to be the technology leader and the most competitive supplier in terms of cost and performance in each of our major product lines. Accordingly, we invest in research and engineering projects intended to enhance our position 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.

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

We continue to position our business to leverage our research and development leadership and innovation and to focus our efforts on mitigating volatility, improving profitability and ensuring longer-term growth. We remain focused on operational excellence, expanding our product offerings and managing our business efficiently throughout the business cycles. Our visibility into future demand is generally limited, forecasting is difficult, and we 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 April 1, 2017, our total cash, cash equivalents and short-term investments were \$574.2 million, a \$26.3 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.

On August 14, 2014, 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 14, 2017. 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. 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 six months ended April 1, 2017, there were no stock repurchases under the Program. As of April 1, 2017, our remaining stock repurchase authorization under the Program was approximately \$ 7.0 million.

### **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 a stream of improvements to existing products and to deliver next-generation products. These investments often focus as much on improvements in the semiconductor assembly process as on specific pieces of assembly equipment or expendable tools. In order to generate these improvements, we often work in close collaboration with customers, end users, and other industry members. In addition to producing technical advances, these collaborative development efforts strengthen customer relationships and enhance our reputation as a technology leader and solutions provider.

In addition to gold, silver alloy wire and aluminum wire, our leadership in the industry's use of copper wire for the bonding process is an example of the benefits of our collaborative efforts. By working with customers, material suppliers, and other equipment suppliers, we have developed a series of robust, high-yielding production processes, which have made copper wire widely accepted and significantly reduced the cost of assembling an integrated circuit.

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 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 (IConn<sup>PS</sup> 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 PowerFusion<sup>PS</sup> improve the processing of

high-density power packages, due to an expanded bondable area, wider leadframe capability, indexing accuracy and teach mode. In all cases, we are making a concerted effort to develop commonality of subsystems and design practices, in order to improve 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 expendable tools business, driving tool design and manufacturing technology to optimize the performance and process capability of the equipment in which our tools are used. For all our equipment products, expendable tools are an integral part of their process capability. We believe our unique ability to simultaneously develop both equipment and tools is a core strength supporting our products' technological differentiation.

**Products and Services**

The Company operates two segments: Equipment and Expendable Tools. The following tables reflect net revenue by business segment for the three and six months ended April 1, 2017 and April 2, 2016 :

<i>(dollar amounts in thousands)</i>	Three months ended			
	April 1, 2017		April 2, 2016	
	Net revenues	% of total net revenue	Net revenues	% of total net revenue
Equipment	\$ 180,979	90.7%	\$ 141,062	90.2%
Expendable Tools	18,634	9.3%	15,338	9.8%
	<u>\$ 199,613</u>	<u>100.0%</u>	<u>\$ 156,400</u>	<u>100.0%</u>

<i>(dollar amounts in thousands)</i>	Six months ended			
	April 1, 2017		April 2, 2016	
	Net revenues	% of total net revenue	Net revenues	% of total net revenue
Equipment	\$ 313,958	89.9%	\$ 234,036	88.3%
Expendable Tools	35,294	10.1%	30,898	11.7%
	<u>\$ 349,252</u>	<u>100.0%</u>	<u>\$ 264,934</u>	<u>100.0%</u>

**Equipment Segment**

In our Equipment segment, we manufacture and sell a line of ball 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.

Our principal Equipment segment products include:

Business Line	Product Name (1)	Typical Served Market
<b>Ball bonders</b>	IConn <sup>PS</sup> PLUS series (2) (3) (4)	Advanced and ultra fine pitch applications
	IConn <sup>PS</sup> ProCu PLUS series (2) (3) (4)	High-end copper wire applications demanding advanced process capability and high productivity
	IConn <sup>PS</sup> MEM PLUS series (2) (3) (4)	Memory applications
	ConnX <sup>PS</sup> PLUS series (2) (3) (4)	Bonder for low-to-medium pin count applications
	ConnX <sup>PS</sup> LED PLUS	LED applications
<b>Wedge bonders</b>	3600 PLUS	Power hybrid and automotive modules using either heavy aluminum wire or PowerRibbon®
	3700 PLUS	Hybrid and automotive modules using thin aluminum wire
	PowerFusion <sup>PS</sup> TL	Power semiconductors using either aluminum wire or PowerRibbon®
	PowerFusion <sup>PS</sup> HL	Smaller power packages using either aluminum wire or PowerRibbon®
	Asterion <sup>TM</sup>	Power hybrid and automotive modules with extended area using heavy and thin aluminum
	Asterion <sup>TM</sup> EV	Extended area for battery bonding and dual lane hybrid module bonding
<b>Advanced Packaging</b>	AT Premier PLUS	Advanced wafer level bonding application
	APAMA C2S	Thermo-compression for chip-to-substrate, chip-to-chip and high accuracy flip chip ("HA FC") bonding applications
	APAMA C2W	Thermo-compression for chip-to-wafer, HA FC and high density fan-out wafer level packaging ("HD FOWL") bonding applications
	Hybrid Series	Advanced packages assembly applications requiring high throughput such as flip chip, WLP, FOWLP, embedded die, SiP, package-on-package ("POP"), and modules

(1) Power Series ( " PS " )

(2) Standard version

(3) Large area version

(4) Extended large area version

Business Line	Product Name (1)	Typical Served Market
<b>Electronics Assembly</b>	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**

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

- The IConn <sup>PS</sup> PLUS series: high-performance ball bonders which can be configured for either gold or copper wire.
- The IConn <sup>PS</sup> ProCu PLUS series: high-performance copper wire ball bonders for advanced wafer nodes at 28 nanometer and below.
- The IConn <sup>PS</sup> MEM PLUS series: ball bonders designed for the assembly of stacked memory devices.
- The ConnX <sup>PS</sup> PLUS series: cost-performance ball bonders which can be configured for either gold or copper wire.
- The ConnX <sup>PS</sup> LED PLUS : ball bonders targeted specifically at the fast growing LED market.

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

**Wedge Bonders**

We design and manufacture wedge bonders for the power semiconductor and automotive power module markets. Wedge bonders may use either aluminum wire or aluminum ribbon to connect semiconductor chips in power packages, power hybrids and automotive modules for products such as motor control modules or inverters for hybrid cars. In addition, 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 3600 PLUS : high speed, high accuracy wire bonders designed for power modules, automotive packages and other heavy wire multi-chip module applications.
- The 3700 PLUS : wire bonders designed for hybrid and automotive modules using thin aluminum wire.
- The PowerFusion <sup>PS</sup> Semiconductor Wedge Bonders - Configurable in single, dual and multi-head configurations using aluminum wire and PowerRibbon <sup>TM</sup> :
  - The PowerFusion <sup>PS</sup> TL: d esigned for single row leadframe and high volume power semiconductor applications.
  - The PowerFusion <sup>PS</sup> HL and PowerFusion <sup>PS</sup> HL x : d esigned for advanced power semiconductor applications.
- The Asterion <sup>TM</sup> and Asterion <sup>TM</sup> 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 <sup>®</sup> 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 <sup>PS</sup> series are driven by new powerful direct-drive motion systems and expanded pattern recognition capabilities. PowerFusion <sup>PS</sup> series improve the processing of high-density power packages, due to an expanded bondable area, wider leadframe capability, indexing accuracy and teach mode.

### ***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 and high throughput flip chip, 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 that 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.

### ***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.

### ***Other Equipment Products and Services***

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

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

### **Expendable Tools Segment**

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

- Capillaries: expendable tools used in ball bonders. Made of ceramic and other elements, a capillary guides the wire during the ball bonding process. Its features help control the bonding process. We design and build capillaries suitable for a broad range of applications, including for use on our competitors' equipment. In addition to capillaries used for gold wire bonding, we have developed capillaries for use with copper wire to achieve optimal performance in copper wire bonding.
- 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.

**RESULTS OF OPERATIONS**

The following tables reflect our income from operations for the three and six months ended April 1, 2017 and April 2, 2016 :

<i>(dollar amounts in thousands)</i>	Three months ended		\$ Change	% Change
	April 1, 2017	April 2, 2016		
Net revenue	\$ 199,613	\$ 156,400	\$ 43,213	27.6 %
Cost of sales	109,322	86,753	22,569	26.0 %
Gross profit	90,291	69,647	20,644	29.6 %
Selling, general and administrative	32,666	35,499	(2,833)	(8.0)%
Research and development	25,020	22,439	2,581	11.5 %
Operating expenses	57,686	57,938	(252)	(0.4)%
Income from operations	\$ 32,605	\$ 11,709	\$ 20,896	178.5 %

<i>(dollar amounts in thousands)</i>	Six months ended		\$ Change	% Change
	April 1, 2017	April 2, 2016		
Net revenue	\$ 349,252	\$ 264,934	\$ 84,318	31.8 %
Cost of sales	190,643	144,866	45,777	31.6 %
Gross profit	158,609	120,068	38,541	32.1 %
Selling, general and administrative	62,198	63,431	(1,233)	(1.9)%
Research and development	46,525	46,633	(108)	(0.2)%
Operating expenses	108,723	110,064	(1,341)	(1.2)%
Income from operations	\$ 49,886	\$ 10,004	\$ 39,882	398.7 %

Our net revenues for the three and six months ended April 1, 2017 increased as compared to our net revenues for the three and six months ended April 2, 2016 . The increase in net revenue was primarily due to higher volume as a result of higher demand from our customers, particularly in our 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 90.5% and 92.6% of our net revenue for the three months ended April 1, 2017 and April 2, 2016 , 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 44.0% and 30.1% of our net revenue for the three months ended April 1, 2017 and April 2, 2016 was for shipments to customers located in China.

Likewise, approximately 91.5% and 90.9% of our net revenue for the six months ended April 1, 2017 and April 2, 2016 , respectively, was for shipments to customer locations outside of the U.S., primarily in the Asia/Pacific region. Approximately 42.9% and 33.9% of our net revenue for the six months ended April 1, 2017 and April 2, 2016 was for shipments to customers located in China.

The following tables reflect net revenue by business segment for the three and six months ended April 1, 2017 and April 2, 2016 :

<i>(dollar amounts in thousands)</i>	Three months ended		\$ Change	% Change
	April 1, 2017	April 2, 2016		
Equipment	\$ 180,979	\$ 141,062	\$ 39,917	28.3%
Expendable Tools	18,634	15,338	3,296	21.5%
Total net revenue	\$ 199,613	\$ 156,400	\$ 43,213	27.6%

<i>(dollar amounts in thousands)</i>	Six months ended			
	April 1, 2017	April 2, 2016	\$ Change	% Change
Equipment	\$ 313,958	\$ 234,036	\$ 79,922	34.1%
Expendable Tools	35,294	30,898	4,396	14.2%
Total net revenue	\$ 349,252	\$ 264,934	\$ 84,318	31.8%

#### Equipment

The following table reflects the components of Equipment net revenue change between the three and six months ended April 1, 2017 and April 2, 2016 :

<i>(in thousands)</i>	April 1, 2017 vs. April 2, 2016					
	Three months ended			Six months ended		
	Price	Volume	\$ Change	Price	Volume	\$ Change
Equipment	\$ 3,391	\$ 36,526	\$ 39,917	\$ 3,392	\$ 76,530	\$ 79,922

For the three and six months ended April 1, 2017 , the higher Equipment net revenue as compared to the prior year periods was primarily due to the higher volume and favorable price variance. The higher sales volume was primarily due to growing market demand in consumer, enterprise, automotive and industrial applications. The favorable price variance was primarily due to favorable customer mix. These were partially offset by lower volume in Advanced Packaging due to lower demand in the SiP market.

#### Expendable Tools

The following table reflects the components of Expendable Tools net revenue change between the three and six months ended April 1, 2017 and April 2, 2016 :

<i>(in thousands)</i>	April 1, 2017 vs. April 2, 2016					
	Three months ended			Six months ended		
	Price	Volume	\$ Change	Price	Volume	\$ Change
Expendable Tools	\$ (828)	\$ 4,124	\$ 3,296	\$ (2,238)	\$ 6,634	\$ 4,396

For the three and six months ended April 1, 2017 , the higher Expendable Tools net revenue as compared to the prior year periods was primarily due to higher volume and offset by price reductions.

#### Gross Profit

The following tables reflect gross profit by business segment for the three and six months ended April 1, 2017 and April 2, 2016 :

<i>(dollar amounts in thousands)</i>	Three months ended			
	April 1, 2017	April 2, 2016	\$ Change	% Change
Equipment	\$ 80,248	\$ 60,797	\$ 19,451	32.0%
Expendable Tools	10,043	8,850	1,193	13.5%
Total gross profit	\$ 90,291	\$ 69,647	\$ 20,644	29.6%

<i>(dollar amounts in thousands)</i>	Six months ended			
	April 1, 2017	April 2, 2016	\$ Change	% Change
Equipment	\$ 139,384	\$ 102,190	\$ 37,194	36.4%
Expendable Tools	19,225	17,878	1,347	7.5%
Total gross profit	\$ 158,609	\$ 120,068	\$ 38,541	32.1%

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The following tables reflect gross profit as a percentage of net revenue by business segment for the three and six months ended April 1, 2017 and April 2, 2016 :

	Three months ended		Basis Point Change
	April 1, 2017	April 2, 2016	
Equipment	44.3%	43.1%	120
Expendable Tools	53.9%	57.7%	(380)
<b>Total gross margin</b>	<b>45.2%</b>	<b>44.5%</b>	<b>70</b>

	Six months ended		Basis Point Change
	April 1, 2017	April 2, 2016	
Equipment	44.4%	43.7%	70
Expendable Tools	54.5%	57.9%	(340)
<b>Total gross margin</b>	<b>45.4%</b>	<b>45.3%</b>	<b>10</b>

*Equipment*

The following table reflects the components of Equipment gross profit change between the three and six months ended April 1, 2017 and April 2, 2016 :

<i>(in thousands)</i>	April 1, 2017 vs. April 2, 2016							
	Three months ended				Six months ended			
	Price	Cost	Volume	\$ Change	Price	Cost	Volume	\$ Change
Equipment	\$ 3,391	\$ (63)	\$ 16,123	\$ 19,451	\$ 3,392	\$ 2,504	\$ 31,298	\$ 37,194

For the three months ended April 1, 2017 , the higher Equipment gross profit as compared to prior year period was primarily due to the higher volume and favorable price variance. The higher demand was primarily due to growing market demand in consumer, enterprise, automotive and industrial applications. The favorable price variance was primarily due to the favorable customer mix discussed above. These were partially offset by lower volume in Advanced Packaging due to lower demand in the SiP market.

For the six months ended April 1, 2017 , the higher Equipment gross profit as compared to prior year period was primarily due to the higher volume, favorable price variance and lower cost. The higher demand is primarily due to growing market demand in consumer, enterprise, automotive and industrial applications. The favorable price variance was primarily due to favorable customer mix. These were partially offset by lower volume in Advanced Packaging due to lower demand in the SiP market. The lower cost was due to better absorption from higher manufacturing volume.

*Expendable Tools*

The following table reflects the components of Expendable Tools gross profit change between the three and six months ended April 1, 2017 and April 2, 2016 :

<i>(in thousands)</i>	April 1, 2017 vs. April 2, 2016							
	Three months ended				Six months ended			
	Price	Cost	Volume	\$ Change	Price	Cost	Volume	\$ Change
Expendable Tools	\$ (828)	\$ (300)	\$ 2,321	\$ 1,193	\$ (2,238)	\$ (291)	\$ 3,876	\$ 1,347

For the three and six months ended April 1, 2017 , the Expendable Tools gross profit has increased as compared to the prior year periods, primarily driven by higher volume and partially offset by the price reductions as noted above.

**Operating Expenses**

The following tables reflect operating expenses as a percentage of net revenue for the three and six months ended April 1, 2017 and April 2, 2016 :

	Three months ended		Basis point change
	April 1, 2017	April 2, 2016	
Selling, general & administrative	16.4%	22.7%	(630)
Research & development	12.5%	14.3%	(180)
<b>Total</b>	<b>28.9%</b>	<b>37.0%</b>	<b>(810)</b>

  

	Six months ended		Basis point change
	April 1, 2017	April 2, 2016	
Selling, general & administrative	17.8%	23.9%	(610)
Research & development	13.3%	17.6%	(430)
<b>Total</b>	<b>31.1%</b>	<b>41.5%</b>	<b>(1,040)</b>

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

For the three months ended April 1, 2017 , lower SG&A as compared to prior year period was primarily due to \$2.6 million decrease in sales commission and incentive compensation and a \$1.0 million net gain on disposal of fixed assets. These were partially offset by a \$1.1 million increase in executive staff costs.

For the six months ended April 1, 2017 , lower SG&A as compared to prior year period was primarily due to a \$1.7 million net favorable variance in foreign exchange due to strengthening of the U.S. dollar against foreign currencies, a \$1.7 million decrease in sales commissions, a \$1.0 million net gain on disposal of fixed assets and an \$0.8 million recovery of insurance claims. These were partially offset by a \$2.5 million increase in incentive compensation and a \$2.2 million increase in executive staff costs.

**Research and Development (“R&D”)**

For the three months ended April 1, 2017 , higher R&D expense as compared to prior year period was primarily due to higher staff costs. This was partially offset by lower prototype materials for advanced packaging products.

For the six months ended April 1, 2017 , R&D expense has stayed relatively flat as compared to the prior year period and decreased as a percentage of net revenue as a result of the revenue increase discussed above.

**Interest Income and Expense**

The following tables reflect interest income and interest expense for the three and six months ended April 1, 2017 and April 2, 2016 :

<i>(dollar amounts in thousands)</i>	Three months ended		\$ Change	% Change
	April 1, 2017	April 2, 2016		
Interest income	\$ 1,579	\$ 701	\$ 878	125.2 %
Interest expense	\$ (261)	\$ (276)	\$ 15	(5.4)%

  

<i>(dollar amounts in thousands)</i>	Six months ended		\$ Change	% Change
	April 1, 2017	April 2, 2016		
Interest income	\$ 2,751	\$ 1,323	\$ 1,428	107.9 %
Interest expense	\$ (523)	\$ (549)	\$ 26	(4.7)%

For the three and six months ended April 1, 2017 , interest income was higher as compared to prior year period. This was primarily due to higher interest rates and a larger cash, cash equivalents and short-term investments balance.

Interest expense for the three and six months ended April 1, 2017 and April 2, 2016 was attributable to the interest on financing obligation relating to the building, which was incurred subsequent to the completion of the building in December 2013 (Refer to Note 9 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 six months ended April 1, 2017 and April 2, 2016 :

<i>(dollar amounts in thousands)</i>	Three months ended		Six months ended	
	April 1, 2017	April 2, 2016	April 1, 2017	April 2, 2016
Income before income taxes	\$ 33,923	\$ 12,134	\$ 52,114	\$ 10,778
Income tax expense	4,882	7,045	7,490	5,780
Net income	\$ 29,041	\$ 5,089	\$ 44,624	\$ 4,998
Effective tax rate	14.4%	58.1%	14.4%	53.6%

Please refer to Note 12 of Item 1 for discussion on the provision for income taxes and the effective tax rate for the three and six months ended April 1, 2017 and April 2, 2016 .

### LIQUIDITY AND CAPITAL RESOURCES

The following table reflects total cash, cash equivalents and short-term investments as of April 1, 2017 and October 1, 2016 :

<i>(dollar amounts in thousands)</i>	As of		
	April 1, 2017	October 1, 2016	Change
Cash and cash equivalents	\$ 435,203	\$ 423,907	\$ 11,296
Short-term investments	139,000	124,000	\$ 15,000
Total cash, cash equivalents and short-term investments	\$ 574,203	\$ 547,907	\$ 26,296
Percentage of total assets	53.5%	55.8%	

The following table reflects summary Consolidated Condensed Statement of Cash Flow information for the six months ended April 1, 2017 and April 2, 2016 :

<i>(in thousands)</i>	Six months ended	
	April 1, 2017	April 2, 2016
Net cash provided by / (used in) operating activities	\$ 42,978	\$ (979)
Net cash used in investing activities	(32,399)	(1,792)
Net cash used in financing activities	(643)	(14,093)
Effect of exchange rate changes on cash and cash equivalents	1,360	243
Changes in cash and cash equivalents	\$ 11,296	\$ (16,621)
Cash and cash equivalents, beginning of period	423,907	498,614
Cash and cash equivalents, end of period	\$ 435,203	\$ 481,993

#### Six months ended April 1, 2017

Net cash provided by operating activities was primarily due to the combination of net income of \$44.6 million , non-cash adjustments of \$17.3 million and working capital changes of \$(18.9) million . The change in working capital was primarily driven by an increase in accounts and notes receivable of \$39.1 million , an increase in inventories of \$17.6 million , and a decrease in income taxes payable of \$3.8 million . This was partially offset by corresponding increase in accounts payable, accrued expenses and other current liabilities of \$41.0 million .

The increase in accounts receivables was due to higher sales in the second quarter of fiscal 2017 as compared to the fourth quarter of fiscal 2016. The higher activity in the second quarter of fiscal 2017 as compared to the fourth quarter of fiscal 2016 resulted in an increase in accounts payable and an increase in inventories.

Net cash used in investing activities was due to purchases of short-term investments of \$139.0 million , capital expenditures of \$17.4 million and an equity investment of \$1.3 million . This was offset by the proceeds from the maturity of short-term investments of \$124.0 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 .

### **Six months ended April 2, 2016**

Net cash used in operating activities was primarily due to a working capital decrease of \$16.0 million offset by the non-cash adjustments of \$10.0 million and net income of \$5.0 million. The decrease in working capital was primarily driven by an increase in accounts and notes receivable of \$52.4 million and an increase in inventories of \$4.8 million. This was partially offset by an increase in accounts payable, accrued expenses and other current liabilities of \$33.4 million and income taxes payable of \$7.9 million.

The increase in accounts receivables was due to higher sales in the second quarter of fiscal 2016 as compared to the fourth quarter of fiscal 2015. The lower sales in fourth quarter of fiscal 2015 were mainly attributable to a lower equipment utilization rate due to the economic conditions, and therefore lower demand from our customers. The higher activity in the second quarter of fiscal 2016 as compared to the fourth quarter of fiscal 2015 resulted in an increase in accounts payable and accrued expenses and an increase in inventories. The higher income taxes payable was mainly due to additional tax liability arising from a settlement reached with a foreign tax authority.

Net cash used in investing activities was primarily due to capital expenditures of \$2.8 million and partially offset by proceeds from sales of property, plant and equipment of \$1.1 million.

Net cash used in financing activities relates to the repurchase of common stock of \$14.6 million, partially offset by the excess tax benefits from stock-based compensation arrangements of \$0.5 million.

### **Fiscal 2017 Liquidity and Capital Resource Outlook**

We expect our fiscal 2017 capital expenditures to be approximately \$29.0 million. 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 April 1, 2017 and October 1, 2016, approximately \$522.8 million and \$479.7 million of cash, cash equivalents and short-term investments were held by the Company's foreign subsidiaries, respectively. The cash amounts not available for use in the U.S. without incurring additional U.S. income tax as of April 1, 2017 and October 1, 2016, were approximately \$466.6 million and \$428.4 million, respectively.

The Company's international operations and capital requirements are funded primarily by cash generated by foreign operating activities and cash held by foreign subsidiaries. Most of the Company's operations and liquidity needs are outside the U.S. The Company's U.S. operations and capital requirements are funded primarily by cash generated from U.S. operating activities. In addition, the Company has entered into an Uncommitted Revolving Credit Agreement with United Overseas Bank Limited, New York Agency, providing for a \$25 million revolving credit facility (the "2016 Credit Facility"). The 2016 Credit Facility is an unsecured revolving credit facility of \$25 million with an initial maturity date of March 20, 2017, which has been extended on the same terms until March 20, 2018. The proceeds of the 2016 Credit Facility may be used for the Company's general corporate purposes and provide additional liquidity for any U.S. needs. We believe our U.S. sources of cash and liquidity are sufficient to meet our business needs in the U.S. for the foreseeable future including funding of U.S. operations, capital expenditures and the share repurchase program as approved by the Board of Directors. We currently do not expect that we will need to repatriate the funds we have designated as indefinitely reinvested outside the U.S., but may do so in the future. Should the Company's U.S. cash needs exceed its funds generated by U.S. operations due to changing business conditions or transactions outside the ordinary course, such as acquisitions of large capital assets, businesses or any other capital appropriation in the U.S., the Company may require additional financing in the U.S. In this event, the Company could repatriate the funds or may borrow under the 2016 Credit Facility, seek other U.S. borrowing alternatives, repatriate funds held by foreign subsidiaries that have already been subject to U.S. taxation without incurring additional income tax expense (i.e. earnings previously subject to U.S. income tax or U.S. deferred taxes already accrued on those respective earnings), or a combination thereof.

In 2014, the Company's Board of Directors authorized a program to repurchase up to \$100 million of the Company's common stock on or before August 14, 2017. The Company has entered into a written trading plan under Rule 10b5-1 of the Exchange Act to facilitate repurchases under the repurchase program. The repurchase program may be suspended or discontinued at any time and is funded using the Company's available cash. 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 this program depend on market conditions as well as corporate and regulatory considerations.

During the six months ended April 1, 2017, there were no stock repurchases. As of April 1, 2017, our remaining stock repurchase authorization under the repurchase program was approximately \$ 7.0 million.

**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 April 1, 2017 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 following table reflects obligations and contingent payments under various arrangements as of April 1, 2017 :

<i>(in thousands)</i>	Payments due by fiscal period				
	Total	Less than 1 year	1 - 3 years	3 - 5 years	More than 5 years
<b>Current and long-term liabilities:</b>					
Pension plan obligations	\$ 3,352	\$ —	\$ —	\$ —	\$ 3,352
Severance (1)	3,173	—	819	—	2,354
Operating lease retirement obligations (2)	1,357	347	122	—	888
Long-term income taxes payable	5,553	—	—	—	5,553
Total Obligations and Contingent Payments reflected on the Consolidated Condensed Financial Statements	\$ 13,435	\$ 347	\$ 941	\$ —	\$ 12,147
<b>Contractual Obligations:</b>					
Inventory purchase obligations (3)	\$ 178,187	\$ 178,187	\$ —	\$ —	\$ —
Operating lease obligations (4)	21,163	3,936	5,150	3,979	8,098
Total Obligations and Contingent Payments not reflected on the Consolidated Condensed Financial Statements	\$ 199,350	\$ 182,123	\$ 5,150	\$ 3,979	\$ 8,098

- (1) In accordance with regulations applicable to some of our foreign subsidiaries, we are required to provide for severance obligations that are payable when an employee leaves the Company.
- (2) Asset retirement obligations are associated with commitments to return the property to its original condition upon lease termination at various sites.
- (3) 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.
- (4) We have minimum rental commitments under various leases (excluding taxes, insurance, maintenance and repairs, which are also paid by us) primarily for various facility and equipment leases, which expire periodically through 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 April 1, 2017, we recorded a financing obligation of \$16.6 million. The financing obligation is not reflected in the table above.

## **Off-Balance Sheet Arrangements**

### ***Credit facilities***

On November 22, 2013, the Company obtained a \$5.0 million credit facility with Citibank in connection with the issuance of a bank guarantee for operational purposes. As of April 1, 2017, the outstanding amount is \$3.2 million.

On March 21, 2016, the Company entered into an Uncommitted Revolving Credit Agreement with United Overseas Bank Limited, New York Agency ("UOB"), providing for a \$25 million revolving credit facility (the "2016 Credit Facility"). The 2016 Credit Facility is an unsecured revolving credit facility of \$25 million with an initial term of one year, and has been extended by another year until March 20, 2018. All other material terms and conditions of the 2016 Credit Facility remain in force and effect. The proceeds of the 2016 Credit Facility may be used for the Company's general corporate purposes. As of April 1, 2017, there was no outstanding amount under the 2016 Credit Facility and we were in compliance with the covenants described in the 2016 Credit Facility.

As of April 1, 2017, 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 April 1, 2017, a 10.0% fluctuation could impact our financial position, results of operations or cash flows by \$3.0 to \$4.0 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 foreign exchange forward contracts have maturities of up to twelve months. We have foreign exchange forward contracts with a notional amount of \$32.3 million outstanding as of April 1, 2017. On April 5, 2017, the Company entered into foreign exchange forward contracts with notional amount of \$10.6 million.

## **Item 4. - CONTROLS AND PROCEDURES**

### **Evaluation of Disclosure Controls and Procedures**

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of April 1, 2017. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that, as of April 1, 2017 our disclosure controls and procedures were effective in providing reasonable assurance that the information required to be disclosed by us in reports filed under the Securities Exchange Act of 1934, as amended, is (i) recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms and (ii) accumulated and communicated to our management, including the Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding disclosure.

**Changes in Internal Control Over Financial Reporting**

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.

In connection with the evaluation by our management, including with the participation of our Chief Executive Officer and Chief Financial Officer, of our internal control over financial reporting, no changes during the three months ended April 1, 2017 were identified to have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**PART II. - OTHER INFORMATION**

**Item 1A. - RISK FACTORS**

**Certain Risks Related to Our Business**

There have been no material changes from the risk factors discussed in Part I, Item 1A, “Risk Factors”, of our 2016 Annual Report on Form 10-K.

**Item 6. - EXHIBITS**

<u>Exhibit No.</u>	<u>Description</u>
10.1	Agreement For Purchase and Sale of Real Property, dated January 11, 2017, between the Company and ARC KSFTWPA001, LLC, incorporated herein by reference to Exhibit 10.1 of the Company's Quarterly Report on Form 10-Q for the quarterly period ended December 31, 2016.
10.2	2017 Equity Plan is incorporated herein by reference to Appendix A to the Company's Proxy Statement on Schedule 14A for the annual meeting of shareholders on March 14, 2017.*
31.1	Certification of Fusen Chen, Chief Executive Officer of Kulicke and Soffa Industries, Inc., pursuant to Rule 13a-14(a) or Rule 15d-14(a).
31.2	Certification of Jonathan Chou, Chief Financial Officer of Kulicke and Soffa Industries, Inc., pursuant to Rule 13a-14(a) or Rule 15d-14(a).
32.1	Certification of 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 Jonathan Chou, Chief Financial Officer of Kulicke and Soffa Industries, Inc., pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document.
101.SCH	XBRL Taxonomy Extension Schema Document.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.

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

SIGNATURES

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

KULICKE AND SOFFA INDUSTRIES, INC.

Date: May 4, 2017

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

**EXHIBIT INDEX**

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## CERTIFICATION

I, Fusen Chen, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Kulicke and Soffa Industries, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 4, 2017

By: /s/ FUSEN CHEN

Fusen Chen

President and Chief Executive Officer

## CERTIFICATION

I, Jonathan Chou, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Kulicke and Soffa Industries, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 4, 2017

By: /s/ JONATHAN CHOU

Jonathan Chou

Executive Vice President and Chief Financial Officer

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

I, Fusen Chen, President and Chief Executive Officer of Kulicke and Soffa Industries, Inc., do hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

1. the Quarterly Report on Form 10-Q of Kulicke and Soffa Industries, Inc. for the three months ended April 1, 2017 (the “ April 1, 2017 Form 10-Q”), as filed with the Securities and Exchange Commission, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and
2. the information contained in the April 1, 2017 Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of Kulicke and Soffa Industries, Inc.

Date: May 4, 2017

By: /s/ FUSEN CHEN

Fusen Chen

President and Chief Executive Officer

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

I, Jonathan Chou, Executive Vice President and Chief Financial Officer of Kulicke and Soffa Industries, Inc., do hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

1. the Quarterly Report on Form 10-Q of Kulicke and Soffa Industries, Inc. for the three months ended April 1, 2017 (the “ April 1, 2017 Form 10-Q”), as filed with the Securities and Exchange Commission, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and
2. the information contained in the April 1, 2017 Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of Kulicke and Soffa Industries, Inc.

Date: May 4, 2017

By: /s/ JONATHAN CHOU

Jonathan Chou

Executive Vice President and Chief Financial Officer