

KULICKE & SOFFA INDUSTRIES INC
Form POS AM
January 07, 2005
Table of Contents

As filed with the Securities and Exchange Commission on January 7, 2005

Registration No. 333-82910

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

POST-EFFECTIVE AMENDMENT NO. 1
ON FORM S-1 TO
REGISTRATION STATEMENT ON FORM S-3
UNDER
THE SECURITIES ACT OF 1933

KULICKE AND SOFFA INDUSTRIES, INC.

(Exact Name of Registrant as Specified in Its Charter)

Pennsylvania
(State or Other Jurisdiction of
Incorporation or Organization)

3674
(Primary Standard Industrial
Classification Code Number)

23-1498399
(I.R.S. Employer
Identification Number)

2101 Blair Mill Road
Willow Grove, Pennsylvania 19090

Edgar Filing: KULICKE & SOFFA INDUSTRIES INC - Form POS AM

(215) 784-6000

(Address, Including Zip Code, and Telephone Number, Including Area Code, of Registrant's Principal Executive Offices)

David J. Anderson

Vice President and General Counsel

2101 Blair Mill Road

Willow Grove, Pennsylvania 19090

(215) 784-6000

(Name, Address, Including Zip Code, and Telephone Number, Including Area Code, of Agent for Service)

Copy to:

F. Douglas Raymond, III

Drinker Biddle & Reath LLP

One Logan Square

18th and Cherry Streets

Philadelphia, PA 19103-6996

Approximate date of commencement of proposed sale to the public: As soon as practicable after the effective date of this Registration Statement.

If any of the securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box.

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

Edgar Filing: KULICKE & SOFFA INDUSTRIES INC - Form POS AM

If this form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. "

If delivery of the prospectus is expected to be made pursuant to Rule 434, check the following box. "

Table of Contents

PROSPECTUS

\$250,000,000

KULICKE AND SOFFA INDUSTRIES, INC.

Common Stock

Preferred Stock

Senior Debt Securities

Senior Subordinated Debt Securities

Subordinated Debt Securities

Warrants

Units

Kulicke & Soffa, directly or through underwriters designated from time to time, may offer, issue and sell, together or separately, (i) shares of common stock, (ii) shares of preferred stock, (iii) debt securities, which may be senior debt securities, senior subordinated debt securities or subordinated debt securities, (iv) warrants to purchase common stock, preferred stock, debt securities and (v) units consisting of two or more classes of the securities registered hereunder.

The form in which we are to issue the securities, their specific designation, aggregate principal amount or aggregate initial offering price, maturity, if any, rate and times of payment of interest or dividends, if any, redemption, conversion, and sinking fund terms, if any, voting or other rights, if any, exercise price and detachability, if any, and other specific terms will be described in a supplement to this prospectus, together with the terms, of the offering of such securities.

Investing in the securities offered hereby involves risks. See Risk Factors beginning on page 2.

Edgar Filing: KULICKE & SOFFA INDUSTRIES INC - Form POS AM

Our common stock is traded on the Nasdaq National Market under the symbol KLIC. Any prospectus supplement will also contain information, where applicable, as to any other listing on a securities exchange of the securities covered by such prospectus supplement.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus or the accompanying prospectus supplement is truthful or complete. Any representation to the contrary is a criminal offense.

This prospectus may not be used to sell securities unless it is accompanied by a prospectus supplement.

The date of this prospectus is January 7, 2005.

Table of Contents

TABLE OF CONTENTS

<u>SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS</u>	ii
<u>SUMMARY</u>	1
<u>RISK FACTORS</u>	2
<u>USE OF PROCEEDS</u>	12
<u>RATIO OF EARNINGS TO FIXED CHARGES</u>	12
<u>PRICE RANGE OF COMMON STOCK</u>	13
<u>DIVIDEND POLICY</u>	13
<u>CAPITALIZATION</u>	14
<u>BUSINESS</u>	15
<u>MANAGEMENT</u>	22
<u>LEGAL PROCEEDINGS</u>	28
<u>PRINCIPAL SHAREHOLDERS</u>	29
<u>SELECTED FINANCIAL DATA</u>	31
<u>MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u>	35
<u>QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>	65
<u>GENERAL DESCRIPTION OF SECURITIES</u>	66
<u>DESCRIPTION OF CAPITAL STOCK</u>	66
<u>DESCRIPTION OF DEBT SECURITIES</u>	68
<u>DESCRIPTION OF WARRANTS</u>	83
<u>DESCRIPTION OF UNITS</u>	83
<u>PLAN OF DISTRIBUTION</u>	84
<u>LEGAL MATTERS</u>	85
<u>EXPERTS</u>	85
<u>WHERE YOU CAN FIND MORE INFORMATION</u>	86
<u>INDEX TO CONSOLIDATED FINANCIAL STATEMENTS</u>	F-1

All references in this prospectus to Kulicke & Soffa, the company, our, us and we refer to Kulicke and Soffa Industries, Inc. and its consolidated subsidiaries, except where the context otherwise requires or as otherwise indicated.

You should rely only on the information contained in this prospectus and any applicable prospectus supplement. We have not authorized any other person to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. We are not making an offer to sell these securities or soliciting an offer to buy the securities in any jurisdiction where the offer or sale is not permitted. You should assume that the information appearing in this prospectus is accurate only as of the date of this prospectus. Our business, financial condition, results of operations and prospects may have changed since that date.

This prospectus is based on information provided by us and by other sources that we believe are reliable. We cannot assure you that this information is accurate or complete. This prospectus summarizes certain documents and other information, and we refer you to them for a more complete understanding of what we discuss in this prospectus. In making an investment decision, you must rely on your own examination of our company and the terms of this offering and the securities, including the merits and risks involved.

We are not making any representation to any purchaser of the securities regarding the legality of an investment in the securities by such purchaser. You should not consider any information in this prospectus to be legal, business or tax advice. You should consult your own attorney, business advisor or tax advisor for legal, business and tax advice regarding an investment in the securities.

Table of Contents

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

the projected growth rates in the overall semiconductor industry, the semiconductor assembly equipment market, the market for semiconductor packaging materials and the market for test interconnect solutions;

the successful operation of our test interconnect business and its expected growth rate; and

the projected continuing demand for wire bonders.

Generally, words such as may, will, should, could, anticipate, expect, intend, estimate, plan, continue, and believe, or the variations on these and other similar expressions identify forward-looking statements. These forward-looking statements are made only as of the date of this prospectus. 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 and 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 under Risk Factors and those detailed from time to time in our filings with the SEC. In light of these and other uncertainties, you should not conclude that we will necessarily achieve any plans or objectives or projected financial results referred to in any forward-looking statements.

Table of Contents

SUMMARY

The following summary highlights selected information regarding Kulicke and Soffa Industries, Inc. It does not contain all of the information that is important to you. You should carefully read this entire prospectus and any prospectus supplement, together with the other documents to which this prospectus and any prospectus supplement refers you. In addition, you should carefully consider the risks and uncertainties of an investment in us described under the caption "Risk Factors" or in the applicable prospectus supplement.

We design, manufacture and market capital equipment, packaging materials and test interconnect products as well as service, maintain, repair and upgrade equipment, all used to assemble and/or test semiconductor devices. We are currently the world's leading supplier of semiconductor wire bonding assembly equipment, according to VLSI Research, Inc. Our business is currently divided into three product segments:

equipment;

packaging materials; and

wafer and package test interconnect products.

We believe we are the only major supplier to the semiconductor assembly industry that can provide customers with semiconductor wire bonding equipment along with the complementary packaging materials and test interconnect products that actually contact the surface of the customer's semiconductor devices. We believe that the ability to control all of these assembly related products provides us with a significant competitive advantage and should allow us to develop system solutions to the new technology challenges inherent in assembling and packaging next-generation semiconductor devices.

Kulicke and Soffa Industries, Inc. was incorporated in Pennsylvania in 1956. Our principal offices are located at 2101 Blair Mill Road, Willow Grove, Pennsylvania 19090 and our telephone number is (215) 784-6000. We maintain a website with the address www.kns.com. We are not including the information contained on our website as a part of, or incorporating it by reference into, this prospectus.

About This Prospectus

This prospectus is part of a registration statement that we have filed with the Securities and Exchange Commission (the "SEC") using a shelf registration. Under this shelf registration, we may sell any combination of the securities described in this prospectus in one or more offerings up to an aggregate initial offering price of \$250,000,000. This prospectus provides you with a general description of the securities we may offer. Each time we sell securities, we will provide a prospectus supplement that will contain specific information about the terms of that offering. The prospectus supplement may also add, update or change information contained in this prospectus. You should read both this prospectus and any prospectus supplement together with additional information described in Where You Can Find More Information.

Table of Contents

RISK FACTORS

You should carefully consider all of the information contained in this prospectus and the financial statements and other documents summarized in this prospectus, including the risks described below, before making an investment decision. The risks described below are not the only ones facing our company. Additional risks not currently known to us or that we currently consider less significant may also impair our business operations.

Our business, financial condition, or results of operations could be materially, adversely affected by any of these risks. The trading price of the securities could decline due to any of these risks, and you may lose all or part of your investment.

Risks Related to Our Business

The semiconductor industry is volatile with sharp periodic downturns and slowdowns

Our operating results are significantly affected by the capital expenditures of large semiconductor manufacturers and their subcontract assemblers and by those of vertically integrated manufacturers of electronic systems. Expenditures by semiconductor manufacturers and their subcontract assemblers and by vertically integrated manufacturers of electronic systems depend on the current and anticipated market demand for semiconductors and products that use semiconductors, including personal computers, telecommunications equipment, consumer electronics, and automotive goods. Significant downturns in the market for semiconductor devices or in general economic conditions reduce demand for our products and materially and adversely affect our business, financial condition and operating results.

Historically, the semiconductor industry has been volatile, with periods of rapid growth followed by industry-wide retrenchment. These periodic downturns and slowdowns have adversely affected our business, financial condition and operating results. They have been characterized by, among other things, diminished product demand, excess production capacity, and accelerated erosion of selling prices. These downturns historically have severely and negatively affected the industry's demand for capital equipment, including the assembly equipment, the packaging materials and test interconnect solutions that we sell.

The semiconductor industry experienced downturns in fiscal 1998 through the first half of fiscal 1999, in fiscal 2001 through the first three quarters of fiscal 2003 and we are currently seeing a slowing in customer demand for our wire bonders. In the 1998-1999 downturn, our net sales declined from approximately \$501.9 million in fiscal 1997 to \$411.0 million in fiscal 1998. In the 2001-2003 downturn, our net sales declined from approximately \$877.6 million in fiscal 2000 to \$441.6 million in fiscal 2002. The business environment was improved in the fourth quarter of fiscal 2003 through the first nine months of fiscal 2004 but we experienced slowing in demand for our wire bonders in our fourth quarter of fiscal 2004 and we experienced further slowing in demand for our wire bonders in the first fiscal quarter of 2005. There can be no assurances regarding the level of demand for our products, and in any case, we believe the historical volatility both upward and downward will persist. Any downturn may be more severe and prolonged than those experienced in the past. Downturns adversely affect our business, financial condition and operating results.

We may experience increasing price pressure

Edgar Filing: KULICKE & SOFFA INDUSTRIES INC - Form POS AM

Our historical business strategy for many of our products has focused on product performance and customer service more than on price. The length and severity of the most recent economic downturn increased cost pressures on our customers and we have observed increasing price sensitivity on their part. In response, we are actively seeking to reduce our cost structure by moving operations to lower cost areas and by reducing other operating costs. If we are unable to realize prices that allow us to continue to compete on the basis of performance and service, our financial condition and operating results may be materially and adversely affected.

- 2 -

Table of Contents

Our quarterly operating results fluctuate significantly and may continue to do so in the future

In the past, our quarterly operating results have fluctuated significantly; we expect that they will continue to fluctuate. Although these fluctuations are partly due to the volatile nature of the semiconductor industry, they also reflect other factors, many of which are outside of our control.

Some of the factors that may cause our revenues and/or operating margins to fluctuate significantly from period to period are:

market downturns;

the mix of products that we sell because, for example:

our test division has lower margins than assembly equipment and packaging materials;

some lines of equipment within our business segments are more profitable than others; and

some sales arrangements have higher margins than others;

the volume and timing of orders for our products and any order postponements;

virtually all of our orders are subject to cancellation, deferral or rescheduling by the customer without prior notice and with limited or no penalties;

changes in our pricing, or that of our competitors;

higher than anticipated costs of development or production of new equipment models;

the availability and cost of the components for our products;

unanticipated delays in the introduction of our new products and upgraded versions of our products and market acceptance of these products when introduced;

customers' delay in purchasing our products due to customer anticipation that we or our competitors may introduce new or upgraded products; and

our competitors' introduction of new products.

Edgar Filing: KULICKE & SOFFA INDUSTRIES INC - Form POS AM

Many of our expenses, such as research and development, selling, general and administrative expenses and interest expense, do not vary directly with our net sales. As a result, a decline in our net sales would adversely affect our operating results. In addition, if we were to incur additional expenses in a quarter in which we did not experience comparable increased net sales, our operating results would decline. In a downturn, we may have excess inventory, which is required to be written off. Some of the other factors that may cause our expenses to fluctuate from period-to-period include:

the timing and extent of our research and development efforts;

severance, resizing and the costs of relocating or closing down facilities;

inventory write-offs due to obsolescence; and

inflationary increases in the cost of labor or materials.

Because our revenues and operating results are volatile and difficult to predict, we believe that consecutive period-to-period comparisons of our operating results may not be a good indication of our future performance.

- 3 -

Table of Contents

We may not be able to rapidly develop, manufacture and gain market acceptance of new and enhanced products required to maintain or expand our business

We believe that our continued success depends on our ability to continuously develop and manufacture new products and product enhancements on a timely and cost-effective basis. We must timely introduce these products and product enhancements into the market in response to customers' demands for higher performance assembly equipment, leading-edge materials and for test interconnect solutions customized to address rapid technological advances in integrated circuits and capital equipment designs. Our competitors may develop new products or enhancements to their products that offer performance, features and lower prices that may render our products less competitive. The development and commercialization of new products requires significant capital expenditures over an extended period of time, and some products that we seek to develop may never become profitable. In addition, we may not be able to develop and introduce products incorporating new technologies in a timely manner that will satisfy our customers' future needs or achieve market acceptance.

Most of our sales and a substantial portion of our manufacturing operations are located outside of the United States, and we rely on independent foreign distribution channels for certain product lines; all of which subject us to risks from changes in trade regulations, currency fluctuations, political instability and war

Approximately 86% of our net sales for fiscal 2004, 80% of our net sales for fiscal 2003 and 74% of our net sales for fiscal 2002 were attributable to sales to customers for delivery outside of the United States, in particular to customers in the Asia/Pacific region. We expect this trend to continue. Thus, our future performance will depend, in significant part, on our ability to continue to compete in foreign markets, particularly in Asia/Pacific. These economies have been highly volatile, resulting in significant fluctuation in local currencies, and political and economic instability. These conditions may continue or worsen, which may materially and adversely affect our business, financial condition and operating results.

We also rely on non-United States suppliers for materials and components used in our products, and most of our manufacturing operations are located in countries other than the United States. We manufacture our automatic ball bonders and bonding wire in Singapore, capillaries in Israel and China, bonding wire in Switzerland, test products in Taiwan, China, France, and Scotland and we have sales, service and support personnel in China, Hong Kong, Japan, Korea, Malaysia, the Philippines, Singapore, Taiwan and Europe. We also rely on independent foreign distribution channels for certain of our product lines. As a result, a major portion of our business is subject to the risks associated with international, and particularly Asia/Pacific, commerce, such as:

terrorism, war and civil disturbances or other events that may limit or disrupt markets;

expropriation of our foreign assets;

longer payment cycles in foreign markets;

international exchange restrictions;

restrictions on the repatriation of our assets, including cash;

possible disagreements with tax authorities regarding transfer pricing regulations;

the difficulties of staffing and managing dispersed international operations;

episodic events outside our control such as, for example, the outbreak of Severe Acute Respiratory Syndrome;

tariff and currency fluctuations;

changing political conditions;

- 4 -

Table of Contents

labor conditions and costs;

foreign governments' monetary policies and regulatory requirements;

less protective foreign intellectual property laws; and

legal systems which are less developed and which may be less predictable than those in the United States.

Because most of our foreign sales are denominated in United States dollars, an increase in value of the United States dollar against foreign currencies, particularly the Japanese yen, will make our products more expensive than those offered by some of our foreign competitors. Our ability to compete overseas in the future may be materially and adversely affected by a strengthening of the United States dollar against foreign currencies. Because we have significant assets, including cash, outside the United States, those assets are subject to risks of seizure, and it may be difficult to repatriate them, or repatriation may result in the payment by us of significant United States taxes.

Our international operations also depend upon favorable trade relations between the United States and those foreign countries in which our customers, subcontractors, and materials suppliers have operations. A protectionist trade environment in either the United States or those foreign countries in which we do business, such as a change in the current tariff structures, export compliance or other trade policies, may materially and adversely affect our ability to sell our products in foreign markets. In addition, any change to existing United States laws or the enactment of new laws penalizing United States companies for reducing the number of United States based employees and hiring more employees in foreign countries may adversely affect our business, financial condition and operating results.

We may not be able to consolidate manufacturing facilities without incurring unanticipated costs and disruptions to our business

In an effort to further reduce our cost structure, we have initiated a process of closing some of our manufacturing facilities and expanding others. We may incur significant and unexpected costs, delays and disruptions to our business during this consolidation process. Because of unanticipated events, including the actions of governments, employees or customers, we may not realize the synergies, cost reductions and other benefits of any consolidation to the extent or within the timeframe that we currently expect.

Our business depends on attracting and retaining management, marketing and technical employees

As with many other technology companies, our future success depends on our ability to hire and retain qualified management, marketing and technical employees. In particular, we periodically experience shortages of engineers. If we are unable to continue to attract and retain the managerial, marketing and technical personnel we require, our business, financial condition and operating results could be materially and adversely affected.

Difficulties in forecasting demand for our product lines may lead to periodic inventory shortages or excesses

Edgar Filing: KULICKE & SOFFA INDUSTRIES INC - Form POS AM

We typically operate our business with a relatively short backlog. As a result, we sometimes experience inventory shortages or excesses. We generally order supplies and otherwise plan our production based on internal forecasts of demand. We have in the past, and may again in the future, fail to forecast accurately demand for our products, in terms of both volume and configuration for either our current or next-generation wire bonders. This has led to and may in the future lead to delays in product shipments or, alternatively, an increased risk of inventory obsolescence. If we fail to forecast accurately demand for our products, including assembly equipment, packaging materials and test interconnect solutions, our business, financial condition and operating results may be materially and adversely affected.

Advanced packaging technologies other than wire bonding may render some of our products obsolete

Advanced packaging technologies have emerged that may improve device performance or reduce the size of an integrated circuit package, as compared to traditional die and wire bonding. These technologies include flip chip and chip scale packaging. Some of these advanced technologies eliminate the need for wires to establish the electrical connection between a die and its package. The semiconductor industry may, in the future, shift a significant part of its volume into

Table of Contents

advanced packaging technologies, such as those discussed above, which do not employ our products. If a significant shift to advanced packaging technologies were to occur, demand for our wire bonders and related packaging materials may be materially and adversely affected.

Because a small number of customers account for most of our sales, our revenues could decline if we lose a significant customer

The semiconductor manufacturing industry is highly concentrated, with a relatively small number of large semiconductor manufacturers and their subcontract assemblers and vertically integrated manufacturers of electronic systems purchasing a substantial portion of our semiconductor assembly equipment, packaging materials and test interconnect solutions. Sales to a relatively small number of customers account for a significant percentage of our net sales. In fiscal 2004, fiscal 2003 and fiscal 2002, sales to Advanced Semiconductor Engineering, our largest customer, accounted for 17%, 13% and 13%, respectively, of our net sales.

We expect that sales of our products to a small number of customers will continue to account for a high percentage of our net sales for the foreseeable future. Thus, our business success depends on our ability to maintain strong relationships with our important customers. Any one of a number of factors could adversely affect these relationships. If, for example, during periods of escalating demand for our equipment, we were unable to add inventory and production capacity quickly enough to meet the needs of our customers, they may turn to other suppliers making it more difficult for us to retain their business. Similarly, if we are unable for any other reason to meet production or delivery schedules, particularly during a period of escalating demand, our relationships with our key customers could be adversely affected. If we lose orders from a significant customer, or if a significant customer reduces its orders substantially, these losses or reductions may materially and adversely affect our business, financial condition and operating results.

We depend on a small number of suppliers for raw materials, components and subassemblies. If our suppliers do not deliver their products to us, we would be unable to deliver our products to our customers

Our products are complex and require raw materials, components and subassemblies having a high degree of reliability, accuracy and performance. We rely on subcontractors to manufacture many of these components and subassemblies and we rely on sole source suppliers for some important components and raw materials, including gold. As a result, we are exposed to a number of significant risks, including:

lack of control over the manufacturing process for components and subassemblies;

changes in our manufacturing processes, in response to changes in the market, which may delay our shipments;

our inadvertent use of defective or contaminated raw materials;

the relatively small operations and limited manufacturing resources of some of our suppliers, which may limit their ability to manufacture and sell subassemblies, components or parts in the volumes we require and at acceptable quality levels and prices;

reliability or quality problems with certain key subassemblies provided by single source suppliers as to which we may not have any short term alternative;

Edgar Filing: KULICKE & SOFFA INDUSTRIES INC - Form POS AM

shortages caused by disruptions at our suppliers and subcontractors for a variety of reasons, including work stoppage or fire, earthquake, flooding or other natural disasters;

delays in the delivery of raw materials or subassemblies, which, in turn, may delay our shipments; and

the loss of suppliers as a result of the consolidation of suppliers in the industry.

If we are unable to deliver products to our customers on time for these or any other reasons; if we are unable to meet customer expectations as to cycle time; or if we do not maintain acceptable product quality or reliability, our business, financial condition and operating results may be materially and adversely affected.

- 6 -

Table of Contents

Our test division and our diversification presents significant management and operating challenges

During fiscal 2001, we acquired two companies that design and manufacture test interconnect solutions, Cerprobe Corporation and Probe Technology Corporation, and combined their operations to create our test division. Since its acquisition in 2001, this division has not performed to our expectations. Problems have included difficulties in rationalizing duplicate products and facilities, and in integrating these acquisitions. Our plan to correct these problems centers on the following steps: standardize production processes between the various test manufacturing sites, create and ramp production of our highest volume products in a new lower cost site in China and/or outsource production where appropriate, then rationalize excess capacity by converting existing higher cost, low volume manufacturing sites to service centers. If we are unable to successfully implement this plan, our operating margins and results of operations will continue to be adversely affected by the performance of our test division.

More generally, our diversification strategy has increased demands on our management, financial resources and information and internal control systems. Our success will depend, in part, on our ability to manage and integrate our test division and our equipment and packaging materials businesses and to continue successfully to implement, improve and expand our systems, procedures and controls. If we fail to integrate our businesses successfully or to develop the necessary internal procedures to manage diversified businesses, our business, financial condition and operating results may be materially and adversely affected.

Although we have no current plans to do so, we may from time to time in the future seek to expand our business through acquisition. In that event, the success of any such acquisition will depend, in part, on our ability to integrate and finance (on acceptable terms) the acquisition.

We may be unable to continue to compete successfully in the highly competitive semiconductor equipment, packaging materials and test interconnect solutions industries

The semiconductor equipment, packaging materials and test interconnect solutions industries are very competitive. In the semiconductor equipment and test interconnect solutions markets, significant competitive factors include performance, quality, customer support and price. In the semiconductor packaging materials industry, competitive factors include price, delivery and quality.

In each of our markets, we face competition and the threat of competition from established competitors and potential new entrants, some of which have or may have significantly greater financial, engineering, manufacturing and marketing resources than we have. Some of these competitors are Asian and European companies that have had and may continue to have an advantage over us in supplying products to local customers who appear to prefer to purchase from local suppliers, without regard to other considerations.

We expect our competitors to improve their current products' performance, and to introduce new products and materials with improved price and performance characteristics. Our competitors may independently develop technology that is similar to or better than ours. New product and materials introductions by our competitors or by new market entrants could hurt our sales. If a particular semiconductor manufacturer or subcontract assembler selects a competitor's product or materials for a particular assembly operation, we may not be able to sell products or materials to that manufacturer or assembler for a significant period of time because manufacturers and assemblers sometimes develop lasting relations with suppliers, and assembly equipment in our industry often goes years without requiring replacement. In addition, we may have to lower our prices in response to price cuts by our competitors, which may materially and adversely affect our business, financial condition and operating results. We cannot assure you that we will be able to continue to compete in these or other areas in the future. If we cannot compete successfully, we could be forced to reduce prices, and could lose customers and market share and experience reduced margins and profitability.

Our success depends in part on our intellectual property, which we may be unable to protect

Our success depends in part on our proprietary technology. To protect this technology, we rely principally on contractual restrictions (such as nondisclosure and confidentiality provisions) in our agreements with employees, subcontractors,

- 7 -

Table of Contents

vendors, consultants and customers and on the common law of trade secrets and proprietary know-how. We also rely, in some cases, on patent and copyright protection. We may not be successful in protecting our technology for a number of reasons, including the following:

employees, subcontractors, vendors, consultants and customers may violate their contractual agreements, and the cost of enforcing those agreements may be prohibitive, or those agreements may be unenforceable or more limited than we anticipate;

foreign intellectual property laws may not adequately protect our intellectual property rights;

our patent and copyright claims may not be sufficiently broad to effectively protect our technology; our patents or copyrights may be challenged, invalidated or circumvented; or we may otherwise be unable to obtain adequate protection for our technology.

In addition, our partners and alliances may also have rights to technology that we develop. We may incur significant expense to protect or enforce our intellectual property rights. If we are unable to protect our intellectual property rights, our competitive position may be weakened.

Third parties may claim we are infringing on their intellectual property, which could cause us to incur significant litigation costs or other expenses, or prevent us from selling some of our products

The semiconductor industry is characterized by rapid technological change, with frequent introductions of new products and technologies. Industry participants often develop products and features similar to those introduced by others, creating a risk that their products and processes may give rise to claims that they infringe on the intellectual property of others. We may unknowingly infringe on the intellectual property rights of others and incur significant liability for that infringement. If we are found to have infringed on the intellectual property rights of others, we could be enjoined from continuing to manufacture, market or use the affected product, or be required to obtain a license to continue manufacturing or using the affected product. A license could be very expensive to obtain or may not be available at all. Similarly, changing or re-engineering our products or processes to avoid infringing the rights of others may be costly, impractical or time consuming.

Occasionally, third parties assert that we are, or may be, infringing on or misappropriating their intellectual property rights. In these cases, we will defend against claims or negotiate licenses where we consider these actions appropriate. Intellectual property cases are uncertain and involve complex legal and factual questions. If we become involved in this type of litigation, it could consume significant resources and divert our attention from our business.

Some of our customers are parties to litigation brought by the Lemelson Medical, Education and Research Foundation Limited Partnership (Lemelson), in which Lemelson claims that certain manufacturing processes used by those customers infringe patents held by Lemelson. We have never been named a party to any such litigation. Some customers have requested that we indemnify them to the extent their liability for these claims arises from use of our equipment. We do not believe that products sold by us infringe valid Lemelson patents. If a claim for contribution were to be brought against us, we believe we would have valid defenses to assert and also would have rights to contribution and claims against our suppliers. We have not incurred any material liability with respect to the Lemelson claims or any other pending intellectual property claim to date and we do not believe that these claims will materially and adversely affect our business, financial condition or operating results. The ultimate outcome of any infringement or misappropriation claim that might be made, however, is uncertain and we cannot assure you that the resolution of any such claim would not materially and adversely affect our business, financial condition and operating results.

We may be materially and adversely affected by environmental and safety laws and regulations

We are subject to various federal, state, local and foreign laws and regulations governing, among other things, the generation, storage, use, emission, discharge, transportation and disposal of hazardous material, investigation and remediation of contaminated sites and the health and safety of our employees. Increasingly, public attention has focused on the environmental impact of manufacturing operations and the risk to neighbors of chemical releases from such operations.

- 8 -

Table of Contents

Proper waste disposal plays an important role in the operation of our manufacturing plants. In many of our facilities we maintain wastewater treatment systems that remove metals and other contaminants from process wastewater. These facilities operate under permits that must be renewed periodically. A violation of those permits may lead to revocation of the permits, fines, penalties or the incurrence of capital or other costs to comply with the permits, including potential shutdown of operations.

In the future, existing or new land use and environmental regulations may: (1) impose upon us the need for additional capital equipment or other process requirements, (2) restrict our ability to expand our operations, (3) subject us to liability for, among other matters, remediation, and/or (4) cause us to curtail our operations. We cannot assure you that any costs or liabilities associated with complying with these environmental laws will not materially and adversely affect our business, financial condition and operating results.

We have significant intangible assets and goodwill, which we are required to evaluate annually

In fiscal 2002 and 2003, we recorded substantial write-downs of goodwill. However, our financial statements continue to reflect significant intangible assets and goodwill. We are required to perform an impairment test at least annually to support the carrying value of goodwill and intangible assets. Should we be required to recognize additional intangible or goodwill impairment charges, our financial condition would be adversely affected.

Anti-takeover provisions in our articles of incorporation and bylaws, and under Pennsylvania law may discourage other companies from attempting to acquire us

Some provisions of our articles of incorporation and bylaws and of Pennsylvania law may discourage some transactions where we would otherwise experience a fundamental change. For example, our articles of incorporation and bylaws contain provisions that:

classify our board of directors into four classes, with one class being elected each year;

permit our board to issue blank check preferred stock without stockholder approval; and

prohibit us from engaging in some types of business combinations with a holder of 20% or more of our voting securities without super-majority board or stockholder approval.

Further, under the Pennsylvania Business Corporation Law, because our bylaws provide for a classified board of directors, stockholders may remove directors only for cause. These provisions and some other provisions of the Pennsylvania Business Corporation Law could delay, defer or prevent us from experiencing a fundamental change and may adversely affect our common stockholders' voting and other rights.

Terrorist attacks, such as the attacks that occurred in New York and Washington, D.C. on September 11, 2001, or other acts of violence or war may affect the markets in which we operate and our profitability

Edgar Filing: KULICKE & SOFFA INDUSTRIES INC - Form POS AM

Terrorist attacks may negatively affect our operations. There can be no assurance that there will not be further terrorist attacks against the United States or United States businesses. These attacks or armed conflicts may directly impact our physical facilities or those of our suppliers or customers. Our primary facilities include administrative, sales and R&D facilities in the United States and manufacturing facilities in the United States, Israel, Singapore and China. Also, these attacks have disrupted the global insurance and reinsurance industries with the result that we may not be able to obtain insurance at historical terms and levels for all of our facilities. Furthermore, these attacks may make travel and the transportation of our supplies and products more difficult and more expensive and ultimately affect the sales of our products in the United States and overseas. The existing conflicts in Afghanistan and Iraq, and particularly in Israel, where we maintain a manufacturing facility, or any broader conflict, could have a further impact on our domestic and international sales, our supply chain, our production capability and our ability to deliver products to our customers. Political and economic instability in some regions of the world could negatively impact our business. The consequences of any of these armed conflicts are unpredictable, and we may not be able to foresee events that could have an adverse effect on our business or your investment.

- 9 -

Table of Contents

Changes in stock option accounting rules may adversely impact our reported operating results prepared in accordance with generally accepted accounting principles, our stock price and our competitiveness in the employee marketplace

We have a history of using broad based employee stock option programs to hire, incentivize and retain our workforce. Currently, Statement of Financial Accounting Standards (SFAS) No. 123, Accounting for Stock-Based Compensation, allows companies the choice of either using a fair value method of accounting for options, which would result in expense recognition for all options granted, or using an intrinsic value method, as prescribed by Accounting Principles Board Opinion (APB) No. 25, Accounting for Stock Issued to Employees, with a pro forma disclosure of the impact on net income of using the fair value recognition method. We have elected to apply APB 25 and accordingly, we do not recognize any expense with respect to employee stock options as long as such options are granted at exercise prices equal to the fair value of our common stock on the date of grant.

In October 2004, the Financial Accounting Standards Board (FASB) concluded that SFAS No. 123R, Share-Based Payment, will be effective for public companies for interim or annual periods beginning after June 15, 2005. Under SFAS No. 123R, companies must measure compensation cost for all share-based payments, including employee stock options, using a fair value based method and these payments must be recognized as expenses in our statements of operations.

The implementation of SFAS No. 123R beginning in the fourth quarter of fiscal 2005 will have a significant adverse impact on our consolidated statement of operations because we will be required to expense the fair value of our stock options rather than disclosing the impact on results of operations within our footnotes in accordance with the disclosure provisions of SFAS No. 123 (see Note 1 of the Notes to Consolidated Financial Statements). This will result in lower reported earnings per share, which could negatively impact our future stock price. In addition, this could negatively impact our ability to utilize employee stock plans to recruit and retain employees and could result in a competitive disadvantage to us in the employee marketplace.

We may be unable to generate enough cash to service our debt

Our ability to make payments on our indebtedness and to fund planned capital expenditures and other activities will depend on our ability to generate cash in the future. If our convertible debt is not converted to our common shares, we will be required to make annual cash interest payments of \$1.7 million in each of fiscal years 2005 through 2008, \$821 thousand in fiscal 2009 and \$488 thousand in fiscal 2010 on our aggregate \$270 million of convertible subordinated debt. Principal payments of \$205.0 million and \$65.0 million on the convertible subordinated debt are due in fiscal 2009 and 2010, respectively. Our ability to make payments on our indebtedness is affected by the volatile nature of our business, and general economic, competitive and other factors that are beyond our control. Our indebtedness poses risks to our business, including that:

we must use a substantial portion of our consolidated cash flow from operations to pay principal and interest on our debt, thereby reducing the funds available for working capital, capital expenditures, acquisitions, product development and other general corporate purposes;

insufficient cash flow from operations may force us to sell assets, or seek additional capital, which we may be unable to do at all or on terms favorable to us; and

Edgar Filing: KULICKE & SOFFA INDUSTRIES INC - Form POS AM

our level of indebtedness may make us more vulnerable to economic or industry downturns.

We cannot assure you that our business will generate cash in an amount sufficient to enable us to service interest, principal and other payments on our debt, or to fund our other liquidity needs.

We are not restricted under the agreements governing our existing indebtedness from incurring additional debt in the future. If new debt is added to our current levels, our leverage and our debt service obligations would increase and the related risks described above could intensify.

- 10 -

Table of Contents

Our stock price has been and is likely to continue to be highly volatile

In recent years, the price of our common stock has fluctuated greatly. These price fluctuations have sometimes been rapid and severe. The price of our common stock may continue to fluctuate greatly in the future due to a variety of factors, including:

quarter to quarter variations in our operating results;

differences in our revenue or earnings from levels expected by securities analysts as well as changes in their recommendations;

changes in the ratings of our convertible subordinated debt;

announcements of technological innovations or new products by us or other companies; and

slowdowns or downturns in the semiconductor industry.

One or more of these factors could significantly harm our business and cause a decline in the price of our common stock in the public market, which could adversely affect your investment as well as our business and financial operations.

We have the ability to issue additional equity securities, which would lead to dilution of our issued and outstanding common stock, and the new equity securities that we may issue could include preferred stock that may have rights and preferences that are superior to the rights of holders of our common stock

The issuance of additional equity securities or securities convertible into equity securities will result in dilution of existing stockholders' equity interests in us. Our board of directors has the authority to issue, without vote or action of stockholders, shares of preferred stock in one or more series, and has the ability to fix the rights, preferences, privileges and restrictions of any such series. Any such series of preferred stock could contain dividend rights, conversion rights, voting rights, terms of redemption, redemption prices, liquidation preferences or other rights superior to the rights of holders of our common stock. Our board of directors has no present intention of issuing any such preferred stock, but reserves the right to do so in the future. In addition, we are authorized to issue, without stockholder approval, up to an aggregate of 200 million shares of common stock, of which approximately 51.2 million shares were outstanding as of September 30, 2004. We are also authorized to issue, without stockholder approval, securities convertible into either shares of common stock or preferred stock.

We do not expect to pay dividends on our common stock in the foreseeable future

Although our shareholders may receive dividends if, as and when declared by our board of directors, we do not intend to pay dividends on our common stock in the foreseeable future. Therefore, you should not purchase our common stock if you need immediate or future income by way of dividends from your investment.

Table of Contents

USE OF PROCEEDS

Unless the applicable prospectus supplement for a particular issuance of securities states otherwise, the net proceeds we receive from the sale of the securities offered by this prospectus will be used for general corporate purposes, which may include:

funding the development and growth of our product offerings and business;

repaying indebtedness that we may incur from time to time;

financing potential business acquisitions that we may consider from time to time; and

general working capital.

Pending these uses, we may use the net proceeds to make short-term investments or reduce short-term borrowings.

RATIO OF EARNINGS TO FIXED CHARGES

The ratio of earnings to fixed charges for each of the periods indicated is as follows:

	Fiscal Years Ended September 30,				
	2000	2001	2002	2003	2004
Ratio of earnings to fixed charges	18x				6x

These computations include us and our consolidated subsidiaries. These ratios are computed by dividing (a) income (loss) before taxes from continuing operations plus fixed charges and equity in loss of joint ventures by (b) fixed charges, which includes interest expense plus the portion of rent expense under operating leases we deem to be representative of the interest factor and amortization of debt issue costs.

We would have had to generate additional earnings of \$77.9 million in fiscal 2001, \$233.6 million in fiscal 2002 and \$46.4 million in fiscal 2003 to achieve a ratio of 1:1.

Table of Contents**PRICE RANGE OF COMMON STOCK**

Our common stock is listed and traded on the Nasdaq National Market under the symbol KLIC. The following table sets forth, for the periods indicated, the range of high and low per share sale prices for our common stock. On January 6, 2005, the last reported sale price of our common stock was \$7.41 per share.

	Common Stock Price	
	High	Low
Year ended September 30, 2003:		
First Quarter	\$ 6.74	\$ 1.91
Second Quarter	7.59	4.39
Third Quarter	8.00	4.61
Fourth Quarter	13.25	5.99
Year ended September 30, 2004:		
First Quarter	\$ 17.20	\$ 10.83
Second Quarter	16.72	10.51
Third Quarter	12.80	9.61
Fourth Quarter	10.95	4.80
Year ended September 30, 2005:		
First Quarter	\$ 9.30	\$ 5.70
Second Quarter (as of January 6, 2005)	\$ 8.68	\$ 7.30

As of December 31, 2004, we had approximately 533 stockholders of record.

DIVIDEND POLICY

The payment of dividends on our common stock is within the discretion of our board of directors. We have not historically paid cash dividends on our common stock and we do not expect to declare cash dividends on our common stock in the near future. We intend to retain earnings to finance the growth of our business.

Table of Contents**CAPITALIZATION**

The following table shows our unaudited cash, cash equivalents and short-term investments, and capitalization as of September 30, 2004 on an actual basis. This table should be read in conjunction with our financial statements, related notes and the other information included or referred to in this prospectus.

	As of September 30, 2004
	(in thousands, except share data)
Cash, cash equivalents and short-term investments	\$ 92,509
Restricted cash	\$ 3,257
Short-term obligations:	
Current portion of long-term debt	\$ 202
Long-term obligations:	
1% Convertible Subordinated Notes due 2010	65,000
0.5% Convertible Subordinated Notes due 2008	205,000
Bank borrowings, net of current portion	5,400
Capitalized leases, net of current position	325
Other long-term liabilities	45,087
Total long-term obligations	320,812
Stockholders equity:	
Preferred Stock, without par value; 5 million shares authorized; none issued or outstanding	
Common Stock, without par value; 200 million shares authorized; 51,162,259 issued and outstanding ⁽¹⁾	213,847
Retained Deficit	(139,192)
Accumulated other comprehensive loss	(6,915)
Total Stockholders Equity	67,020
Total Capitalization	\$ 388,034

- (1) Excludes (i) 8.7 million shares as of September 30, 2004 issuable upon exercise of outstanding stock options, (ii) 5.1 million shares issuable upon conversion of the 1.0% Convertible Subordinated Notes due 2010, and (iii) 10.1 million shares issuable upon conversion of the 0.5% Convertible Subordinated Notes due 2008.

Table of Contents

BUSINESS

We design, manufacture and market capital equipment, packaging materials and test interconnect products as well as service, maintain, repair and upgrade equipment, all used to assemble and/or test semiconductor devices. We are currently the world's leading supplier of semiconductor wire bonding assembly equipment, according to VLSI Research, Inc. Our business is currently divided into three product segments:

equipment;

packaging materials; and

wafer and package test interconnect products.

We completed the divestiture of our former advanced packaging technologies segment in February 2004.

Our goal is to be both the technology leader and the lowest cost supplier in each of our major lines of business. We believe we are the only major supplier to the semiconductor assembly industry that can provide customers with semiconductor wire bonding equipment along with the complementary packaging materials and test interconnect products that actually contact the surface of the customer's semiconductor devices. We believe that the ability to control all of these assembly related products provides us with a significant competitive advantage, and should allow us to develop system solutions to the new technology challenges inherent in assembling and packaging next-generation semiconductor devices.

The semiconductor industry has been historically volatile, with periods of rapid growth followed by downturns. In response to recent downturns, we shifted our strategy, focusing on our larger, more established product lines, and divesting or discontinuing smaller or more speculative businesses. Additionally, we continuously seek to further reduce our cost structure by moving operations to lower cost areas, moving away from non-core businesses, and increasing productivity. We believe the historical volatility of the semiconductor industry both upward and downward will persist.

Kulicke and Soffa Industries, Inc. was incorporated in Pennsylvania in 1956. Our principal offices are located at 2101 Blair Mill Road, Willow Grove, Pennsylvania 19090 and our telephone number is (215) 784-6000. We maintain a website with the address www.kns.com. We are not including the information contained on our website as a part of, or incorporating it by reference into, this filing. We make available free of charge (other than an investor's own Internet access charges) on or through our website our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and all amendments to these reports, as soon as reasonably practicable after the material is electronically filed with or otherwise furnished to the Securities and Exchange Commission.

Table of Contents**Products and Services**

We offer a range of wire bonding equipment and spare parts, packaging materials, and test interconnect products. Set forth below is a table listing the net sales from continuing operations for each business segment for our fiscal years ended September 30, 2002, 2003, and 2004:

(in thousands)

	Fiscal Year Ended September 30,		
	2002	2003⁽¹⁾	2004
	Net Sales	Net Sales	Net Sales
Equipment	\$ 169,469	\$ 198,447	\$ 361,244
Packaging materials	157,176	174,471	234,690
Test interconnect	114,698	104,882	121,877
Other ⁽²⁾	222	135	
	\$ 441,565	\$ 477,935	\$ 717,811

- (1) In the fourth quarter of fiscal 2003, we sold the assets related to the saw and hard material blade businesses that were part of the equipment segment and packaging materials segment, respectively. Those businesses together had fiscal 2003 revenue of \$11.3 million.
- (2) Comprised of sales associated with our substrate business that was closed in fiscal 2002.

Our equipment sales are highly volatile, based on the semiconductor industry's need for new capability and capacity, whereas packaging materials and test interconnect sales in general tend to be more stable, following the trend of total semiconductor unit production.

See Note 13 to our Consolidated Financial Statements for financial results by business segment and sales by geographic location.

Equipment

We manufacture and market a line of wire bonders, which are used to connect very fine wires, typically made of gold, aluminum or copper, between the bond pads of a semiconductor die and the leads on the integrated circuit (IC) package to which the die has been attached. We believe that our wire bonders offer competitive advantages by providing customers with high productivity/throughput and superior package quality/process control. In particular, our machines are capable of performing very fine pitch bonding as well as creating the sophisticated wire loop shapes that are needed in the assembly of advanced semiconductor packages. Our principal products are:

Ball Bonders. Automatic IC ball bonders represent a large majority of our semiconductor equipment business. As part of our competitive strategy, we have been introducing new models of IC ball bonders every 15 to 24 months, with each new model designed to increase both productivity and process capability compared to its predecessor. In May 2002, we began marketing the Maxum IC ball bonder, which offered

Edgar Filing: KULICKE & SOFFA INDUSTRIES INC - Form POS AM

up to 20% more productivity than its predecessor. In the second quarter of fiscal 2004, we began shipping the Maxum Plus to customers offering further productivity increases, as well as process capability improvements. In addition, in January of 2003, we began shipping the Nu-Tek, a new automatic wire bonder optimized for low lead count ICs and discrete device applications, which are both segments of the market where we had not previously participated.

Specialty Wire Bonders. We also produce other models of wire bonders, targeted at specific market niches, including: the Model 8098, a large area ball bonder designed for wire bonding hybrid, chip on board, and other large area applications; the WaferPRO Plus, for wafer level bumping for area array applications; the Triton RDA, a wedge bonder designed for ribbon bonding; and the Model 8090, a large area wedge bonder. We also manufacture and market a line of manual wire bonders.

- 16 -

Table of Contents

We believe that our industry knowledge and technical experience have positioned us to deliver innovative, customer-specific offerings that reduce the cost of owning our equipment over its useful life. In response to customer trends in outsourcing packaging requirements, we provide repair and maintenance services, a variety of equipment upgrades, machine and component rebuild activities and expanded customer training through our customer operations group.

Packaging Materials

We manufacture and market a range of semiconductor packaging materials and expendable tools for the semiconductor assembly market, including very fine gold, aluminum and copper wire, capillaries, wedges, die collets and saw blades, all of which are used in packaging and assembly processes. Our packaging materials are designed for use on both our own and our competitors' assembly equipment. A wire bonder uses a capillary or wedge tool and bonding wire much like a sewing machine uses a needle and thread. Our principal products are:

Bonding Wire. We manufacture very fine gold, aluminum and copper wire used in the wire bonding process. This wire is bonded to the chip surface and package substrate by the wire bonder and becomes a permanent part of the customer's semiconductor package. We produce wire to a wide range of specifications, which can satisfy most wire bonding applications across the spectrum of semiconductor packages.

Expendable Tools. Our expendable tools include a wide variety of capillaries, wedges, die collets and wafer saw blades. The capillaries and wedges actually attach the wire to the semiconductor chip, allow a precise amount of wire to be fed out to form a permanent wire loop, then attach the wire to the package substrate, and finally cut the wire so that the bonding process can be repeated again. Die collets are used to pick up and place die into packages before the wire bonding process begins. Our hub blades are used to cut silicon wafers into individual semiconductor die.

Test Interconnect

We offer a broad range of fixtures used to temporarily contact a semiconductor device while it is still in the wafer format (wafer probing), thereby providing electrical connections to automatic test equipment. We also offer test sockets used to test the final semiconductor package (package or final testing). Our principal test interconnect products are:

Probe cards. Probe cards consist of complex, multilayer printed circuit boards (PCB) upon which are attached numerous probe needles designed to make temporary contact to each of the bond pads or bumps on a die while the die is still in a wafer format, providing electrical connections to automatic test equipment.

Automatic Test Equipment (ATE) interface assemblies. ATE interface assemblies typically consist of electro-mechanical assemblies, electrical contactors and intricate multilayer PCBs, which mechanically and electrically connect to the ATE test prober and carry electrical signals to a probe card, and ultimately the semiconductor device under test.

Edgar Filing: KULICKE & SOFFA INDUSTRIES INC - Form POS AM

Test sockets. Test sockets hold packaged semiconductor devices while making electrical connections to their leads through spring loaded contacts.

Changes in the design of a semiconductor device often require changes in the probe card, test socket and, in certain cases, the ATE interface assembly used to test that semiconductor. Customers generally purchase new versions of these custom-designed products each time there is a design change in the semiconductor being tested. Changes in semiconductor design and processes drive improvements in test interconnect technology in order to support significant increases in the number and density of bond pads or leads being tested and the speed of the electrical signals being tested.

- 17 -

Table of Contents

Customers

Our major customers include large semiconductor manufacturers and their subcontract assemblers and vertically integrated manufacturers of electronic systems. Customers may vary from year-to-year based on their capital investment and operating expense budgets. The chart below shows our top ten end-use customers, based on net sales, for each of the last three fiscal years:

<u>Fiscal 2002</u>	<u>Fiscal 2003</u>	<u>Fiscal 2004</u>
1. Advanced Semiconductor	1. Advanced Semiconductor	1. Advanced Semiconductor
Engineering *	Engineering*	Engineering*
2. ST Microelectronics	2. ST Microelectronics	2. ST Microelectronics
3. Siliconware Precision Industries	3. Intel	3. Texas Instruments
4. Intel	4. Amkor Technologies	4. Intel
5. Texas Instruments	5. Texas Instruments	5. Siliconware Precision Industries
6. Infineon Technologies	6. Infineon Technologies	6. Spansion
7. Amkor Technologies	7. National Semiconductor	7. National Semiconductor
8. National Semiconductor	8. Philips Electronics	8. ST Assembly Test
9. Samsung	9. ST Assembly Test	9. Infineon Technologies
10. Philips Electronics	10. Siliconware Precision Industries	10. Amkor Technologies

* Accounted for more than 10% of total fiscal year net sales.

We believe that developing long-term relationships with our customers is critical to our success. By establishing these relationships with semiconductor manufacturers, semiconductor subcontract assemblers, and vertically integrated manufacturers of electronic systems, we gain insight into our customers' future IC packaging strategies. This insight assists us in our efforts to develop material, equipment and process solutions that address our customers' future assembly requirements.

International Operations

We sell our products to semiconductor manufacturers, semiconductor subcontract assemblers, and vertically integrated manufacturers of electronic systems, which are primarily located in or have operations in the Asia/Pacific region. Approximately 86% of our fiscal 2004 net sales, 80% of our fiscal 2003 net sales, and 74% of our fiscal 2002 net sales were for delivery to customer locations outside of the United States. The majority of these foreign sales were destined for customer locations in the Asia/Pacific region, including Taiwan, Malaysia, Singapore, Korea, Japan, China and the Philippines. We expect sales outside of the United States to continue to represent a majority of our future revenues.

A majority of our manufacturing operations also are in countries other than the U.S., including major manufacturing operations located in Singapore, Israel, and China and other smaller facilities in France, Japan, Scotland, Switzerland and Taiwan. Risks associated with our international operations include risks of foreign currency and foreign financial market fluctuations, international exchange restrictions, changing political conditions and monetary policies of foreign governments, terrorism, war, civil disturbances, expropriation, and other events that may limit or disrupt markets.

Sales and Customer Support

We believe that providing comprehensive worldwide sales, service, training and support are important competitive factors in the semiconductor equipment industry, and we manage these functions through our global customer operations group. Some of these operations are focused on wire bonders and packaging materials, and others focus on test related products. We rely on a combination of a direct sales force, manufacturers representatives and distributors for the sale of our various product lines. In order to support our customers whose semiconductor assembly operations are located primarily outside of the United States, we have sales, service, and support personnel based in China, Hong Kong, Japan, Korea, Malaysia, the Philippines, Singapore, Taiwan and Europe, and applications labs in Singapore, Japan, Israel, Taiwan, and Germany. We provide timely customer service and support by positioning our service representatives and spare parts near customer facilities, and afford customers the ability to place orders locally and to deal with service and support personnel who speak the customer's language and are familiar with local country practices.

Backlog

At September 30, 2004, we had a backlog of customer orders totaling \$59.7 million, compared to \$104.0 million at June 30, 2004 and \$59.9 million at September 30, 2003. Our backlog consists of customer orders which are scheduled for shipment within 12 months. Virtually all orders are subject to cancellation, deferral or rescheduling by the customer with

Table of Contents

limited or no penalties. Because of the possibility of customer changes in delivery schedules or cancellations and potential delays in product shipments, our backlog as of any particular date may not be indicative of revenues for any succeeding quarterly period. For example, on August 10, 2004, we announced that discussions with customers indicated a general slowing in the rate of semiconductor growth. As a result, some of these customers requested that we delay the shipment of wire bonders previously ordered and included in our backlog of customer orders at June 30, 2004.

Manufacturing

The Company believes excellence in manufacturing can create a competitive advantage, both through lower costs and superior responsiveness. In order to achieve these goals, we manage our manufacturing operations through a single organization and are trending to fewer, larger factories to take advantage of economies of scale and the cost savings available in low labor cost areas.

Equipment. Our equipment manufacturing activities consist primarily of integrating outsourced parts and subassemblies, and testing the finished product to customer specifications. During fiscal 2004, most of our equipment manufacturing took place in Singapore, with a small number of machines built in Willow Grove, Pennsylvania. We believe the outsourcing model enables us to minimize our fixed costs and capital expenditures and focus on product differentiation through technology innovations in system design and manufacturing quality control. Just-in-time inventory management has reduced our manufacturing cycle times and reduced our on-hand inventory requirements. We have received ISO 9001 certification for our equipment manufacturing facility in Singapore.

Packaging Materials. We manufacture expendable tools at facilities in Yokneam, Israel and Suzhou, China, and bonding wire at facilities in Singapore and Thalwil, Switzerland. We manufacture blades for wafer sawing in Santa Clara, California. Our bonding wire facility in Switzerland has received ISO 9001 certification; our bonding wire facility in Singapore has received QS9000 and ISO 14001 certifications; our blade facility in California has received ISO 9002 certification; our bonding tools facility in Yokneam, Israel has received ISO 9001 and ISO 14001 certifications; and our bonding tools facility in Suzhou, China has received ISO 9001 and ISO 14001 certifications.

Test Interconnect Products. We manufacture test probe cards in various facilities located in: Gilbert, Arizona; Hayward and San Jose, California; Hsin Chu, Taiwan; East Kilbride, Scotland; Singapore; Suzhou, China; and Corbeil, France. We manufacture ATE interface assemblies in Gilbert, Arizona and test sockets in Hayward, California and Singapore. As part of our ongoing cost reduction activities, we sold our ATE test board fabrication assets in Dallas, Texas in the third quarter of fiscal 2003 and moved to an outsource strategy for these components, and in fiscal 2004 we closed a test manufacturing facility in Meyreuil, France.

Research and Product Development

Many of our customers generate technology roadmaps describing the future manufacturing capability requirements needed to support their product development plans. Our research and product development activities are organized so that our products anticipate our customers requirements. This can happen either through continuous improvement of our existing products, including upgrades for products already installed in customers facilities, or through the creation of next-generation products. Examples of our continuous improvement strategy include the Nutek and Maxum Plus wire bonders mentioned above both improvements of the Maxum our advanced epoxy line of probe cards, and our DuraCap line of bonding tools. Major next-generation development is underway for our wire bonder, probe card and test socket product lines. Whether we proceed via continuous improvement, or via next-generation technology development, our goal is technology leadership in each of our major product lines.

Our net expenditures for research and development totaled approximately \$34.6 million, \$38.1 million, and \$51.9 million during our fiscal years ended September 30, 2004, 2003 and 2002, respectively.

Competition

The market for semiconductor equipment, packaging materials, and test interconnect products is intensely competitive. Significant competitive factors in the semiconductor equipment market include price, as well as speed/throughput,

Table of Contents

production yield, and customer support, each of which contribute to lower the overall cost per package being manufactured. Our major equipment competitors include:

Wire bonders: ASM Pacific Technology and Shinkawa

Significant competitive factors in the semiconductor packaging materials industry include performance, price, delivery, product life, and quality. Our significant packaging materials competitors include:

Bonding tools: Gaiser Tool Co., Small Precision Tools, Inc. and PECO

Saw blades: Disco Corporation

Bonding wire: Tanaka Electronic Industries, Sumitomo Metal Mining, Heraeus, and Nippon Metal.

Our test products face competition from a few large international firms as well as many small regional firms. Significant competitive factors in the test interconnect industry include performance, price, delivery time, product life, and quality. Our significant competitors include:

Wafer test: FormFactor, Inc., Japan Electronic Materials, and Micronics Japan Company

Package test: Everett Charles, Synergetix, Johnstech International, Enplas Semiconductor

In each of the markets we serve, we face competition and the threat of competition from established competitors and potential new entrants, some of which have greater financial, engineering, manufacturing and marketing resources than we have. Some of our competitors are Asian and European companies that have had and may continue to have an advantage over us in supplying products to local customers because many of these customers appear to prefer to purchase from local suppliers, without regard to other considerations.

Intellectual Property

Where circumstances warrant, we seek to obtain patents on inventions governing new products and processes developed as part of our ongoing research, engineering and manufacturing activities. We currently hold a number of United States patents, some of which have foreign counterparts. We believe that the duration of our patents generally exceeds the life cycles of the technologies disclosed and claimed in the patents. We believe that our portfolio of patents will have more value in the future but that our success will depend primarily on our engineering, manufacturing, marketing and service skills.

In addition, we believe that much of our important technology resides in our trade secrets and proprietary software. As long as we rely on trade secrets and unpatented knowledge, including software, to maintain our competitive position, we cannot assure you that competitors may not independently develop similar technologies and possibly obtain patents containing claims applicable to our products and processes. Our ability to defend ourselves against these claims may be limited. In addition, although we execute non-disclosure and non-competition agreements with

certain of our employees, customers, consultants, selected vendors and others, there is no assurance that such secrecy agreements will not be breached, or that they can be enforced.

Environmental Matters

We are subject to various federal, state, local and foreign laws and regulations governing, among other things, the generation, storage, use, emission, discharge, transportation and disposal of hazardous materials and the health and safety of our employees. In addition, we are subject to environmental laws which may require investigation and cleanup of any contamination at facilities we own or operate or at third party waste disposal sites we use or have used. These laws could impose liability upon us even if we did not know of, or were not responsible for, the contamination.

We have in the past and will in the future incur costs to comply with environmental laws. We are not, however, currently aware of any costs or liabilities relating to environmental matters, including any claims or actions under environmental laws or obligations to perform any cleanups at any of our facilities or any third party waste disposal sites, that we expect to have a material adverse effect on our business, financial condition or operating results. It is possible, however, that material environmental costs or liabilities may arise in the future.

Employees

At September 30, 2004, we had 3,186 permanent employees and 108 temporary and contract workers worldwide. The only employees represented by a labor union are the bonding wire employees in Singapore. Generally, we believe our employee relations to be good. Competition in the recruiting of personnel in the semiconductor and semiconductor equipment industry is intense, particularly with respect to engineering. We believe that our future success will depend in part on our continued ability to hire and retain qualified management, marketing and technical employees.

Table of Contents**Property**

Our major operating facilities are described in the table below:

Facility	Approximate Size	Function	Products	Lease
			Manufactured	Expiration Date
Willow Grove, Pennsylvania	220,000 sq.ft. ⁽¹⁾	Corp. headquarters, manufacturing, technology center, sales and service	Wedge, large area bonders	May 2006
Suzhou, China	134,700 sq.ft. ⁽¹⁾	Manufacturing	Capillaries, probe cards	October 2007
Singapore	84,800 sq.ft. ⁽¹⁾	Manufacturing, technology center, assembly systems	Wire bonders, probe cards	August 2005
Gilbert, Arizona	83,000 sq.ft. ⁽¹⁾	Manufacturing, sales and service	Probe cards, ATE interface assemblies	May 2012
Yokneam, Israel	53,800 sq.ft. ⁽²⁾	Manufacturing, technology center	Capillaries, wedges, die collets	N/A
Singapore	38,400 sq.ft. ⁽¹⁾	Manufacturing	Bonding wire	May 2006
Hsin Chu, Taiwan	36,800 sq.ft. ⁽¹⁾	Manufacturing	Probe cards	July 2007
Hayward, California	35,900 sq.ft. ⁽¹⁾	Manufacturing, sales and service	Test sockets, contactors	September 2005
San Jose, California	34,100 sq.ft. ⁽¹⁾	Manufacturing, sales and service	Probe cards	August 2007
Thalwil, Switzerland	15,100 sq.ft. ⁽¹⁾	Manufacturing	Bonding wire	(3)

(1) Leased.

(2) Owned.

(3) Cancelable semi-annually upon six months notice.

We also rent space for sales and service offices in: Santa Clara, California; Southbury, Connecticut; Austin, Texas; China; Germany; Hong Kong; Japan; Korea; Malaysia; the Philippines; Taiwan; and Thailand and operate smaller manufacturing facilities in Santa Clara, California; France; and Scotland. We believe that our facilities generally are in good condition.

Table of Contents

MANAGEMENT

Directors and Executive Officers

Brian R. Bachman has been a director of our Company since 2003. His present term expires in 2008. Mr. Bachman is a private investor. From 2000 to 2002, Mr. Bachman served as Chief Executive Officer and Vice Chairman of Axcelis Technologies, which produces equipment used in the fabrication of semiconductors, and from 1996 to 2000, he served as Senior Vice President and Group Executive of Eaton Corporation, an industrial manufacturing company. From 1991 to 1995, Mr. Bachman served as Vice President and Business Group General Manager of Philips Semiconductors, a semiconductor supplier. He currently serves as a director of Keithley Instruments and Ultra Clean Technology. Mr. Bachman is 59 years old.

Philip V. Gerdine, Ph.D. (since 1964) and Certified Public Accountant (since 1973) has been a director of our Company since 2000. His present term expires in 2008. Mr. Gerdine is an independent consultant in finance and international operations. From 1988 to September 1998, Mr. Gerdine served as Executive Director of Siemens Aktiengesellschaft, a German multinational company that designs, develops and manufactures systems and products for the communications, power generation and distribution, electronics, medical equipment and allied industries. Mr. Gerdine was also Managing Director of The Plessey Company, PLC, a British engineering firm which manufactured telecommunications products for the global market and defense electronics and semiconductor products largely for the commonwealth markets. He also has been Manager of Acquisitions and Mergers for General Electric Company and has held other senior management positions with Price Waterhouse and The Boston Consulting Group. Mr. Gerdine has held teaching positions in finance and accounting at Fordham Graduate School and other institutions. Mr. Gerdine also serves as a director of Applied Materials, Inc. Mr. Gerdine is 65 years old.

C. Scott Kulicke has been the Chief Executive Officer of our Company since 1979 and Chairman of the Board of Directors since 1984. His present term as a director expires in 2007. He first became an officer of the Company in 1976 and has held a number of executive positions with us since that time. Mr. Kulicke is 55 years old.

John A. O Steen has been a director of our Company since 1988. His present term expires in 2006. Mr. O Steen served as Executive Vice President, Business Development (March, 2003 – May, 2004), Executive Vice President of Operations (July 1998 to February 2003) and Executive Vice President (January to June 1998) of Cornerstone Brands, Inc., a consumer catalog company. From 1991 to 1998, Mr. O Steen served as Chairman and Chief Executive Officer of Cinmar, L.P., a mail order catalog company that was acquired by the predecessor of Cornerstone Brands in September 1995. Before that time, Mr. O Steen served as President, Chief Executive Officer and a director of Cincinnati Microwave, Inc., a manufacturer of electronic products. He currently serves as a director of Cornerstone Brands, Inc. and Riggs Heinrich Media, Inc. Mr. O Steen is 60 years old.

Allison F. Page has been a director of our Company since 1962. His present term expires in 2005. Mr. Page is a retired partner in the Philadelphia law firm of Pepper Hamilton LLP. Mr. Page is 81 years old.

MacDonell Roehm, Jr. has been a director of our Company since 1984. His present term expires in 2006. Mr. Roehm is Chairman and Chief Executive Officer of Crooked Creek Capital LLC, a provider of strategic, operational and financial restructuring services, a position he has held since 1998. From September 2002 to April 2003, Mr. Roehm also served as Chief Executive Officer of CH4 Gas Limited, a natural resources company. From 2000 to 2001, Mr. Roehm served as Chairman and Chief Executive Officer of Mackenzie-Childs Ltd., a manufacturer and retailer of furniture and home accessories. Mr. Roehm was hired by Mackenzie-Childs Ltd. to implement remedial action plans, and on November 28, 2000, Mackenzie-Childs Ltd. filed a voluntary petition under Chapter 11 of the United States Bankruptcy Code, seeking

Edgar Filing: KULICKE & SOFFA INDUSTRIES INC - Form POS AM

reorganization to provide a framework under which those remedial action plans could be executed. From 1999 to 2000, Mr. Roehm served as Chairman of Australian Ventures LLC, a private equity fund. From 1994 until 1998, Mr. Roehm served as Chairman, President and Chief Executive Officer of Bill's Dollar Stores, Inc., a chain of retail convenience stores. Before that time, he served as Managing Director of AEA Investors, Inc., a private investment firm. Mr. Roehm also serves as a director of CH4 Gas Limited. Mr. Roehm is 65 years old.

- 22 -

Table of Contents

Barry Waite has been a director of our Company since 2003. His present term expires in 2007. From May 1998 until his retirement in May 2002, Mr. Waite served as President and Chief Executive Officer of Chartered Semiconductor, a major wafer foundry. From 1982 to 1998, Mr. Waite held positions of increasing responsibility with Motorola Corporation, Semiconductor Products Sector, including Senior Vice President and General Manager, Europe, Middle East and Africa (1997 to 1998) and Senior Vice President and General Manager Microprocessor and Memory Technology Group (1993-1997). Mr. Waite serves as a director of ZETEX PLC and is senior advisor to Investor Growth Capital, a New York investment fund. Mr. Waite is 56 years old.

C. William Zadel has been a director of our Company since 1989. His present term expires in 2005. In December of 2004, Mr. Zadel retired from Mykrolis Corporation. From August of 2001 until December of 2004, Mr. Zadel was Chairman and Chief Executive Officer of Mykrolis Corporation, a multinational company focused on developing, manufacturing and marketing technically advanced filtration, purification and control products for the global semiconductor industry. Mykrolis is the former microelectronics division of Millipore Corporation. Before becoming Chief Executive Officer of Mykrolis at its separation from Millipore in August 2001, Mr. Zadel was Chairman and Chief Executive Officer of Millipore since April of 1996. He currently serves as a director of Matritech, Inc. Mr. Zadel is 61 years old.

Charles Salmons holds the position of Senior Vice President, Wafer Test. He was appointed to this position in November 2004. He was appointed Senior Vice President, Product Development in September 2002. He joined us in 1978, and has held positions of increasing responsibility throughout the accounting, engineering and manufacturing organization. Mr. Salmons first became an officer of the Company in 1992, and in 1994, he became Vice President of Operations and was named General Manager, Wire Bonder Operations in 1998. He was appointed Senior Vice President, Customer Operations in 1999. Mr. Salmons is 49 years old.

Jack G. Belani holds the position of Vice President of Wire Bonding and Corporate Marketing. He was appointed to this position in November 2004. Before this, he was Vice President of all the Business Units and Marketing and prior to that he was President of the Wire Bonding Division and before that President of XLAM which was our high density substrate group. He became an officer of the Company upon joining us in April 1999 as Vice President and President of our high density substrate group. Before joining us, he served for more than three years in the Worldwide Manufacturing Group of Cypress Semiconductor Corporation, a supplier of integrated circuits for network infrastructure and access equipment, where he was Vice President of Assembly and Packaging when he left to join us. Before Cypress, he was with National Semiconductor Corporation for approximately 18 years in a variety of technical and managerial positions and one year with Advanced Micro Devices as a Bipolar Memory Wafer Fabrication Process Development Engineer. Mr. Belani is 51 years old.

Maurice E. Carson holds the position of Vice President, Chief Financial Officer. He was appointed to this position when he joined us in September 2003. From 1996 until he joined us in 2003, Mr. Carson served in various finance positions culminating as the Vice President, Finance and Corporate Controller for Cypress Semiconductor Corporation. Before Cypress he was with Ephigraphx as the Chief Operating Officer. Mr. Carson is 47 years old.

Bruce Griffing holds the position of Vice President, Engineering. He was appointed to this position when he joined us in September 2004. From 2001-2003 Dr. Griffing served as Vice President and Chief Technology Officer of DuPont Photomask, a company that provides microimaging solutions. Before DuPont Photomask, Dr. Griffing worked for General Electric from 1979-2001, serving as a Laboratory Manager from 1986 to 2001. Dr. Griffing received his Ph.D in Physics from Purdue University in 1979. Dr. Griffing is 54 years old.

Oded Lendner holds the position of Vice President, Package Test. He was appointed to this position in November 2004. He was appointed to the position of Vice President, World Wide Operations in January 2002. Before this he was President of our Microelectronics division for one year. He joined our Israeli subsidiary in 1989 and has held positions of increasing responsibility throughout our manufacturing organization, and was named Deputy Managing Director, Operations in Israel in 1993. He relocated to the United States and first became an officer of the Company in 1996 as the Vice President, Operations for the Equipment group. In 1999, he became Vice President, Ball Bonder Business unit and Managing

Director of K&S Singapore. Mr. Lendner is 44 years old.

Table of Contents**Executive Compensation****Summary Compensation Table**

The following table sets forth information with respect to the compensation received by the Chief Executive Officer and the four other most highly compensated executive officers of the Company who were serving as executive officers at September 30, 2004 (collectively, the named executive officers) for the fiscal year ended September 30, 2004 (Fiscal 2004), as well as the compensation received by each such individual for the Company's previous two fiscal years (Fiscal 2003 and Fiscal 2002, respectively), if applicable.

Name and Principal Position	Fiscal Year	Annual Compensation			Long Term Compensation Awards	
		Salary	Bonus ⁽¹⁾	Other Annual Compensation ⁽²⁾	Securities	
					Underlying Options	All Other Compensation ⁽³⁾
C. Scott Kulicke						
Chairman of the Board and Chief Executive Officer	2004	\$ 486,663	\$ 337,577	\$ 20,973	76,000	\$ 19,500
	2003	\$ 424,578		\$ 11,489	81,000	\$ 18,000
Oded Lendner	2002	\$ 424,580		\$ 16,596	111,500	\$ 16,500
	2004	\$ 306,433	\$ 102,119	\$ 11,122	41,000	\$ 14,142
Vice President, Package Test Charles Salmons	2003	\$ 272,689		\$ 8,982	41,000	
	2002	\$ 278,458		\$ 13,247	26,200	
Senior Vice President, Wafer Test	2004	\$ 272,512	\$ 140,811	\$ 3,660	41,000	\$ 21,058
	2003	\$ 248,553		\$ 12,030	31,000	\$ 18,966
Jagdish (Jack) G. Belani	2002	\$ 212,498		\$ 11,850	42,000	\$ 13,976
	2004	\$ 269,704	\$ 142,762	\$ 4,077	41,000	\$ 7,224
Vice President of Wire Bonding and Corporate Marketing	2003	\$ 238,618		\$ 12,218	31,000	\$ 3,860
	2002	\$ 204,000			43,000	\$ 4,402
Maurice E. Carson⁽⁴⁾						
Vice President and Chief Financial Officer	2004	\$ 246,926	\$ 127,301	\$ 3,646		\$ 71,928
	2003	\$ 4,519		\$ 29	100,000	

(1) These amounts represent incentive payments to the named executive officers as participants in the Company's Executive Incentive Compensation Plan for the fiscal year indicated.

(2) These amounts represent the (i) imputed taxable value of Company automobiles used by the executive officers and/or automobile allowances, (ii) the taxable value of certain life insurance benefits provided to the named executive officers, and (iii) for Mr. Kulicke and Mr. Lendner, the difference between the purchase price paid by the executive officer and the fair value of automobiles purchased from the Company in Fiscal 2004 in the amounts of \$16,050 and \$7,375, respectively. The Company discontinued its program of providing automobiles or automobile allowances to officers, effective January 1, 2004.

- (3) These amounts represent the Company's matching contribution to its 401(k) Incentive Savings Plan for each of the named executive officers, and in Fiscal 2004, reimbursed relocation costs for Mr. Carson.
- (4) Mr. Carson joined the Company in September, 2003.

- 24 -

Table of Contents

Option Grants in Fiscal 2004

The following table sets forth information with respect to stock option grants by the Company to the named executive officers in Fiscal 2004.

Name	Individual Grants				Potential Realizable Value	
	Number of	% of Total	Exercise Price	Expiration	at Assumed Annual Rates of	
	Shares	Options			Stock	
	Underlying	Granted to	Price Appreciation for			
Options	Employees in	Per Share	Date	Option Term ⁽³⁾		
	Granted ⁽¹⁾	Fiscal Year ⁽²⁾			5%	10%
C. Scott Kulicke	76,000	3.7%	\$ 12.05	10/7/2013	\$ 575,942	\$ 1,459,549
Oded Lendner	41,000	2.0%	\$ 12.05	10/7/2013	\$ 310,705	\$ 787,388
Charles Salmons	41,000	2.0%	\$ 12.05	10/7/2013	\$ 310,705	\$ 787,388
Jagdish (Jack) G. Belani	41,000	2.0%	\$ 12.05	10/7/2013	\$ 310,705	\$ 787,388
Maurice E. Carson		N/A	N/A	N/A	N/A	N/A

⁽¹⁾ The options granted to named executive officers in Fiscal 2004 were granted under the Company's 2001 Employee Stock Option Plan and generally become exercisable commencing one year from the date of grant in installments of 25% per year.

⁽²⁾ The Company granted options to employees to purchase a total of 2,050,554 shares during Fiscal 2004.

⁽³⁾ These amounts represent hypothetical gains that could be achieved for the respective options if exercised at the expiration date of the option. These gains are based on assumed rates of stock appreciation of 5% and 10% compounded annually from the date the respective options were granted to their expiration date.

Aggregated Option Exercises in Fiscal 2004 and 2004 Fiscal Year-End Option Values

The following table sets forth information with respect to the aggregate option exercises by each named executive officer in Fiscal 2004 and the value of unexercised in-the-money options held by each named executive officer at the end of Fiscal 2004, respectively.

Name	Shares Acquired on Exercise	Value Realized	Number of Shares	Value of Unexercised
			Underlying	In-the-Money Options
			Unexercised	at Fiscal Year-End ⁽¹⁾
			Options at Fiscal	

Edgar Filing: KULICKE & SOFFA INDUSTRIES INC - Form POS AM

			Year-End					
			Exercisable	Unexercisable	Exercisable	Unexercisable		
C. Scott Kulicke	20,000	\$ 121,974	774,950	220,150	\$ 234,027	\$ 164,025		
Oded Lendner			102,595	83,825	\$ 20,925	\$ 62,775		
Charles Salmons			144,590	95,650	\$ 20,925	\$ 62,775		
Jagdish (Jack) G. Belani			116,850	94,550	\$ 20,925	\$ 62,775		
Maurice E. Carson			25,000	75,000				

⁽¹⁾ In-the-money options are those where the fair value of the underlying shares exceeds the exercise price of the option. The closing price of the Company's Common Shares on September 30, 2004, the last trading day during Fiscal 2004, was \$5.65 per share.

Table of Contents

Pension Plan

The Company has a tax-qualified defined benefit pension plan, which covered U.S. employees who had reached age 21 and completed one year of service. Effective December 31, 1995, benefit accruals under the Company's pension plan were frozen. Retirement benefits under this pension plan are determined under a formula based on length of service and average compensation in the three consecutive calendar years during the ten year period ended December 31, 1995, producing the highest average (subject to certain Internal Revenue Code limits). Assuming the individual survives until age 65 and begins to receive payments at age 65 in the form of an annuity, the named executives would receive the following annual amounts under the pension plan: C. Scott Kulicke - \$57,996; Charles Salmons - \$22,097; and Jagdish G. (Jack) Belani, Maurice E. Carson, and Oded Lendner - \$0.

Employment Contracts, Termination of Employment and Change in Control Arrangements

The Company has Termination of Employment Agreements with its executive officers which provide that in the event of certain changes in control, as defined in the agreements, the officer who is a party to such agreement and whose employment terminates, other than voluntarily or for cause, within 18 months after such change in control, will be entitled to termination pay equal to the lesser of a specified number of months target total cash compensation (base salary plus incentives) for the year in which the change in control occurs or \$10 less than the amount which would subject the officer to excise tax with respect to such payment under Section 4999 of the Internal Revenue Code or would make payment thereof non-deductible by the Company under Section 280G of the Code. Such agreements are all currently scheduled to expire on December 31, 2006, unless extended. The named executive officers' Termination of Employment Agreements provide for payment of the following number of months' target total cash compensation: Mr. Kulicke, 30 months and Messrs. Belani, Carson, Lendner, and Salmons, 18 months.

Under the Company's 2001 Employee Stock Option Plan (2001 Plan), the 1998 Employee Stock Option Plan (1998 Plan) and the 1994 Employee Stock Option Plan (1994 Plan), in the event of a change in control of the Company (as defined in those plans), all outstanding options become fully vested and exercisable. Under the Company's 1997 Non-Qualified Stock Option Plan for Non-Employee Directors (the 1997 Director Plan), if the Company is a party to any merger in which it is not the surviving entity, or any consolidation or dissolution, all outstanding options will terminate and the optionee will receive, in cash, from the Company an amount equal to the fair market value of the Common Shares subject to his or her outstanding options less the amount which would be required to exercise such options. Under the Company's 1988 Employee Stock Option Plan and 1988 Non-Qualified Stock Option Plan for Non-Officer Directors (the 1988 Director Plan), if the Company is a party to any merger in which it is not the surviving entity, or any consolidation or dissolution, all outstanding options will terminate and the optionee will receive, in cash, from the Company an amount equal to the fair market value of the Common Shares subject to then exercisable options less the amount which would be required to exercise such options.

Table of Contents

Compensation of Directors

In Fiscal 2004, the Board of Directors met seven times. During Fiscal 2004, Directors who were not officers of the Company received a quarterly retainer of \$3,000, plus \$2,000 for each meeting of the Board attended in person and \$1,000 for each telephone meeting of the Board attended. Committee Chairmen also were paid an annual retainer of \$2,000, and committee members were paid \$1,000 for each committee meeting not held on the date of a Board meeting. Effective October 1, 2004, Directors who are not officers of the Company receive a quarterly retainer of \$5,000, plus \$2,000 for each meeting of the Board attended in person and \$1,000 for each telephone meeting of the Board attended. Committee Chairmen also are paid an additional annual retainer of \$5,000, and committee members are paid \$1,000 for each committee meeting. In addition, Directors are paid \$1,000 for each executive session not held on the date of a Board meeting. Directors receive options to acquire 10,000 of the Company's common shares upon joining the Board of Directors, with an exercise price equal to the fair market value on the grant date.

Each member of the Board who is not also an officer or employee of the Company is eligible to participate in the 1988 and 1997 Director Plans. Pursuant to the 1988 Director Plan (which terminated in 1998), options to purchase 5,000 Common Shares were automatically granted to each eligible director on the last day of each February on which the Company's shares were publicly traded through 1998. In February 1999, a similar grant was made pursuant to the 1997 Director Plan, which provides for such grants through 2008. As a result of the two-for-one stock split effective on July 31, 2000, grants under the 1997 Director Plan were increased to 10,000 Common Shares beginning with the grant made in February 2001. The exercise price of all such options is equal to 100% of the fair market value of the Company's Common Shares on the date of grant. All options granted under the 1988 Director Plan and options granted under the 1997 Director Plan before February 13, 2001 become exercisable in 20% annual increments commencing on the first anniversary of the date they are granted. Options granted under the 1997 Director Plan after February 13, 2001 become exercisable in 25% annual increments commencing on the first anniversary of the date they were granted.

Compensation Committee Interlocks and Insider Participation

During Fiscal 2004, the Management Development and Compensation Committee was comprised of Messrs. John A. O Steen, Chairman, Brian R. Bachman, Barry Waite and C. William Zadel, all of whom are independent directors. During Fiscal 2004, no interlocking relationship existed between any member of the Board or executive officer of the Company and any member of the board of directors or compensation committee of any entity.

Table of Contents

LEGAL PROCEEDINGS

From time to time, we are a plaintiff or defendant in various cases arising out of our business. We cannot assure you of the results of any pending or future litigation, but we do not believe that resolution of these matters will materially and adversely affect our business, financial condition or operating results.

- 28 -

Table of Contents**PRINCIPAL SHAREHOLDERS**

The following table sets forth information as of December 31, 2004 (unless otherwise indicated in the notes below) regarding the beneficial ownership of our common stock by: (i) each shareholder known to us to be the beneficial owner, as defined in Rule 13d-3 under the Exchange Act, of more than 5% of our common stock, based upon our records or information publicly filed with the Securities and Exchange Commission, (ii) each director of the Company, (iii) each of the executive officers of the Company named in the Summary Compensation Table herein and (iv) the directors and all current executive officers of the Company as a group. Each of the shareholders named below has sole voting power and sole investment power with respect to the shares indicated as beneficially owned, unless otherwise indicated.

Name and address of Beneficial Owner	Common Shares Beneficially Owned	
	On December 31	
	Number	Percent
Brian R. Bachman	3,500 ⁽¹⁾	*
Philip V. Gerdine	25,100 ⁽¹⁾⁽²⁾	*
C. Scott Kulicke	1,500,762 ⁽¹⁾⁽²⁾	2.9
John A. O Steen	75,000 ⁽¹⁾⁽²⁾	*
Allison F. Page	56,040 ⁽¹⁾	*
MacDonell Roehm, Jr.	91,000 ⁽¹⁾	*
Barry Waite	7,500 ⁽¹⁾	*
C. William Zadel	57,000 ⁽¹⁾	*
Charles Salmons	210,084 ⁽¹⁾	*
Jagdish (Jack) Belani	168,095 ⁽¹⁾	*
Maurice E. Carson	46,450 ⁽¹⁾	*
Oded Lendner	149,611 ⁽¹⁾	*
Capital Group International, Inc. 11100 Santa Monica Boulevard Los Angeles, CA 90025 ⁽³⁾	4,837,950	9.4
Fred Alger Management, Inc. 111 Fifth Avenue New York, NY 10003 ⁽⁴⁾	3,518,694	6.8
Directors and current executive officers as a group (consists of 13 persons) ⁽⁵⁾	2,404,574	4.7

* Represents less than 1%.

- (1) Includes or consists of shares subject to outstanding options that are currently exercisable or exercisable within 60 days after December 31, 2004 in the following amounts: Mr. Bachman (2,500), Mr. Gerdine (25,000), Mr. Waite (7,500), Mr. Kulicke (788,150), Mr. O Steen (55,000), Mr. Page (55,000), Mr. Roehm (85,000), Mr. Zadel (55,000), Mr. Salmons (204,365), Mr. Belani (167,759), Mr. Carson (45,875), and Mr. Lendner (146,980).
- (2) Includes shares jointly held with the individual's spouse in the following amounts: Mr. Gerdine (100), Mr. Kulicke (532,031), and Mr. O Steen (2,000).
- (3) Based on information provided pursuant to an amendment to Schedule 13G filed jointly by Capital Group International, Inc. and Capital Guardian Trust Company with the Securities and Exchange Commission on February 13, 2004. Capital Group International, Inc. is the parent holding company of a group of investment management companies that hold investment power and, in some cases, voting

Table of Contents

power over these shares. On the amended Schedule 13G, Capital Group International, Inc. also reported that it does not have investment power or voting power over these shares, but it may be deemed to beneficially own these shares by virtue of Rule 13d-3 under the Securities Exchange Act of 1934.

- (4) Based on information provided pursuant to a statement on Schedule 13G filed with the SEC on February 13, 2004.
- (5) Includes 1,652,324 shares subject to options that are currently exercisable or exercisable within 60 days after December 31, 2004. See also footnote (1) above.

Table of Contents**SELECTED FINANCIAL DATA**

The following selected consolidated financial data should be read in conjunction with our consolidated financial statements, related notes and other financial information included herein and incorporated herein by reference.

	<i>(in thousands, except per share amounts)</i>				
	Fiscal Years Ended September 30,				
	2000	2001	2002	2003	2004
Statement of Operations Data:					
Net sales:					
Equipment	\$ 692,062	\$ 249,952	\$ 169,469	\$ 198,447	\$ 361,244
Packaging materials	185,570	150,945	157,176	174,471	234,690
Test		116,890	114,698	104,882	121,877
Corporate and other ⁽¹⁾		595	222	135	
Total net sales	877,632	518,382	441,565	477,935	717,811
Cost of goods sold:					
Equipment	419,732	166,359	142,965	129,092	208,862
Packaging materials	130,548	110,570	118,080	132,779	182,658
Test		84,401	79,686	87,856	95,286
Corporate and other ⁽¹⁾			14		
Total cost of goods sold ⁽²⁾	550,280	361,330	340,745	349,727	486,806
Operating expenses:					
Equipment	120,244	105,609	91,966	71,678	59,071
Packaging materials	32,876	31,088	32,578	26,684	21,942
Test		66,148	130,077	44,218	48,107
Corporate and other ⁽¹⁾	29,380	34,234	66,883	15,539	17,940
Total operating expenses ⁽²⁾	182,500	237,079	321,504	158,119	147,060
Income (loss) from operations:					
Equipment	152,086	(22,016)	(65,462)	(2,323)	93,311
Packaging materials	22,146	9,287	6,518	15,008	30,090
Test		(33,659)	(95,065)	(27,192)	(21,516)
Corporate and other ⁽¹⁾	(29,380)	(33,639)	(66,675)	(15,404)	(17,940)
Income (loss) from continuing operations ⁽²⁾	144,852	(80,027)	(220,684)	(29,911)	83,945
Interest income (expense), net	4,782	(5,542)	(14,941)	(16,491)	(9,357)
Equity in loss of joint venture ⁽³⁾	(1,221)				
Charge on early extinguishment of debt					(10,510)
Other income and minority interest		8,022	2,010		

Edgar Filing: KULICKE & SOFFA INDUSTRIES INC - Form POS AM

Income (loss) from continuing operations before taxes and cumulative effect of change in accounting principle	148,413	(77,547)	(233,615)	(46,402)	64,078
Provision (benefit) for income taxes from continuing operations ⁽⁴⁾	41,712	(21,468)	32,561	7,594	7,386
Loss from discontinued operations, net of tax ⁽²⁾⁽⁵⁾	(3,456)	(1,009)	(7,939)	(22,693)	(812)
Cumulative effect of change in accounting principle, net of tax		(8,163)			
Net income (loss)	103,245	(65,251)	(274,115)	(76,689)	55,880
Addback:					
Goodwill amortization, net of tax ⁽⁹⁾	1,873	9,587			
Pro forma net income (loss) ⁽⁹⁾	\$ 105,118	\$ (55,664)	\$ (274,115)	\$ (76,689)	\$ 55,880

- 31 -

Table of Contents

	<i>(in thousands, except per share amounts)</i>				
	Fiscal Years Ended September 30,				
	2000	2001	2002	2003	2004
Income (loss) from continuing operations before cumulative effect of change in accounting principle per share: ⁽⁶⁾					
Basic	\$ 2.23	\$ (1.15)	\$ (5.41)	\$ (1.09)	\$ 1.12
Diluted	\$ 1.96	\$ (1.15)	\$ (5.41)	\$ (1.09)	\$ 0.90
Discontinued operations, net of tax per share: ⁽⁶⁾					
Basic	\$ (0.07)	\$ (0.02)	\$ (0.16)	\$ (0.46)	\$ (0.02)
Diluted	\$ (0.06)	\$ (0.02)	\$ (0.16)	\$ (0.46)	\$ (0.01)
Cumulative effect of change in accounting principle, net of tax per share: ⁽⁶⁾					
Basic	\$	\$ (0.17)	\$	\$	\$
Diluted	\$	\$ (0.17)	\$	\$	\$
Net income (loss) per share: ⁽⁶⁾					
Basic	\$ 2.15	\$ (1.34)	\$ (5.57)	\$ (1.54)	\$ 1.10
Diluted	\$ 1.90	\$ (1.34)	\$ (5.57)	\$ (1.54)	\$ 0.89
Goodwill amortization, net of tax per share: ^{(6) (9)}					
Basic	\$ 0.04	\$ 0.20	\$	\$	\$
Diluted	\$ 0.03	\$ 0.20	\$	\$	\$
Pro forma net income (loss) per share: ^{(6) (9)}					
Basic	\$ 2.19	\$ (1.14)	\$ (5.57)	\$ (1.54)	\$ 1.10
Diluted	\$ 1.93	\$ (1.14)	\$ (5.57)	\$ (1.54)	\$ 0.89
Shares used in per common share calculations:⁽⁶⁾					
Basic	47,932	48,877	49,217	49,695	50,746
Diluted	56,496	48,877	49,217	49,695	68,582
Balance Sheet Data:					
Cash, cash equivalents and short-term investments	\$ 316,619	\$ 202,928	\$ 111,300	\$ 73,051	\$ 95,766
Working capital	471,338	265,355	159,813	125,829	193,450
Total assets	731,502	777,426	538,682	442,861	487,682
Long-term debt ^{(7) (8)}	175,000	301,511	300,393	300,338	275,725
Shareholders' equity	405,342	338,547	69,323	97	67,020

- (1) Corporate and other included the sales and expenses from the Company's former high density substrate business and corporate activities.
- (2) During fiscal 2004, we recorded the following charges as operating expenses in continuing operations: severance charges of \$4.5 million; asset impairment charge of \$3.3 million; China start-up costs of \$1.6 million; inventory writedowns of \$1.5 million; and a reversal of prior year resizing charges of \$68 thousand. We also recorded a gain on the sale of assets of \$1.0 million within fiscal 2004 operating expenses.

During fiscal 2003, we recorded the following charges as operating expenses in continuing operations: loss on sale of product lines of \$5.3 million and asset impairment of \$3.6 million of which \$1.7 million was associated with the

Table of Contents

discontinuation of a test product, \$1.2 million was due to the reduction in size of a test facility in Dallas, Texas, and \$730 thousand resulted from the write-down of assets that were sold and assets that became obsolete, \$5.2 million of severance associated with workforce reductions; and charges for inventory write-downs of \$5.1 million (to costs of goods sold). We recorded the following charges in discontinued operations: asset impairment of \$6.9 million associated with the write-down of the assets of our flip chip business unit to realizable value and goodwill impairment of \$5.7 million associated with our former flip chip reporting unit.

During fiscal 2002, we recorded the following charges as operating expenses: goodwill impairment of \$74.3 million associated with our test and hub blade business units; asset impairment of \$31.6 million primarily due to the cancellation of a company-wide integrated information system, the closure of our high density interconnect substrate business and the write-off of development and license costs of certain engineering and manufacturing software; \$19.7 million of resizing charges comprised primarily of severance and contractual commitments associated with reductions in workforce and our closed and consolidated businesses; and \$5.0 million of severance associated with workforce reductions in our continuing businesses. In fiscal 2002, we also recorded charges for inventory write-downs of \$14.4 million (to costs of goods sold), \$5.2 million of which was due to the discontinuance of a product.

During the first quarter of fiscal 2001, we purchased all the outstanding stock of Cerprobe Corporation and Probe Technology Corporation. As a result of these acquisitions, during the year ended September 30, 2001, we recorded a pre-tax charge of approximately \$11.7 million for the write-off of in-process research and development. We also recorded charges of \$19.9 million (to costs of goods sold) for inventory write-downs, \$4.2 million for severance for the elimination of 511 positions and other related charges associated with a resizing of our workforce, \$800 thousand for asset impairment charges, and non-recurring other income of \$8.0 million as the result of an insurance settlement. In fiscal 2001, we also adopted SAB 101, resulting in a cumulative effect of an accounting change charge of \$8.2 million, net of tax. Additionally, cost of goods sold for the year ended September 30, 2001 includes \$4.2 million of acquisition related inventory step-up costs.

In fiscal 2000, operating expense included the write-off of our investment in our Advanced Polymer Solutions joint venture in the amount of \$3.9 million and the reversal into income of \$2.5 million of the severance reserve that we established in fiscal 1999 for the elimination of approximately 230 positions associated with the relocation of our automatic ball bonder manufacturing from the United States to Singapore.

- (3) Equity in loss of joint ventures consists of our share of the loss of Advanced Polymer Solutions, LLC, a 50% owned joint venture which has been dissolved.
- (4) In fiscal 2004, we reversed \$11.2 million of valuation allowance associated with our U.S. net operating loss carryforward deferred tax asset. In fiscal 2003, we recorded a valuation allowance against our deferred tax asset consisting primarily of U.S. net operating loss carryforwards of \$12.1 million. In fiscal 2002 we recorded a valuation allowance against our deferred tax asset consisting primarily of U.S. net operating loss carryforwards of \$65.3 million and a charge of \$25.0 million to provide for tax expense on repatriation of certain foreign earnings.
- (5) Reflects the operations of the Company's former flip chip business unit which was sold in February 2004.
- (6) On June 26, 2000, the Company's Board of Directors approved a two-for-one stock split of our common stock. The additional shares were distributed on July 31, 2000. All prior period earnings per share amounts have been restated to reflect the two-for-one stock split. For fiscal years 2001, 2002 and 2003, only the common shares outstanding have been used to calculate both the basic earnings per common share and diluted earnings per common share because the inclusion of potential common shares would be anti-dilutive due to the net losses reported in those years. The after-tax interest expense recognized in fiscal 2000 and 2004 associated with our convertible subordinated notes that was added back to net income in order to compute diluted net income per share was \$4.3 million and \$5.2 million, respectively.
- (7) Does not include letters of credit.
- (8) In August 2001, we issued \$125.0 million in principal amount of 5 1/4% Convertible Subordinated Notes due 2006, which we redeemed in their entirety in August 2004. In December 1999, we issued \$175.0 million in principal

Table of Contents

- amount of 4.75% Convertible Subordinated Notes due 2006, which we redeemed in their entirety in December 2003. In December 2003, we issued \$205.0 million in principal amount of 0.5% Convertible Subordinated Notes due 2008, and in June 2004, we issued \$65.0 million in principal amount of 1% Convertible Subordinated Notes due 2010.
- (9) Reflects pro-forma results as if the adoption of SFAS 142 *Goodwill and Intangible Assets* had occurred at October 1, 1999. The adjustments reflect an add-back of the amortization expense related to goodwill, net of tax, which would not have occurred under the provisions of the standard. As part of the adoption of SFAS 142, there were no indefinite lived intangibles identified, and there was no change to the estimated useful lives of existing intangible assets.

Table of Contents

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Introduction

We design, manufacture and market capital equipment, packaging materials and test interconnect products as well as service, maintain, repair and upgrade equipment, all used to assemble or test semiconductor devices. We are currently the world's leading supplier of semiconductor wire bonding assembly equipment, according to VLSI Research, Inc. Our business is currently divided into three product segments:

equipment;

packaging materials; and

wafer and package test interconnect products.

We believe we are the only major supplier to the semiconductor assembly industry that can provide customers with semiconductor wire bonding equipment along with the complementary packaging materials and test interconnect products that actually contact the surface of the customer's semiconductor devices. We believe that the ability to control all of these assembly related products provides us with a significant competitive advantage and should allow us to develop system solutions to the new technology challenges inherent in assembling and packaging next-generation semiconductor devices.

In the March 2004 quarter, we sold the remaining assets of our advanced packaging technologies segment, which consisted solely of our flip chip business unit which licensed flip chip technology and provided flip chip bumping and wafer level packaging services. As a result, we have reflected the flip chip business unit as a discontinued operation and

Table of Contents

have not included the results of its operations in our revenues and expenses from continuing operations as reported in our financial statements or in this discussion of our results of operations. We have reclassified our prior period financial statements to coincide with the current year presentation.

The semiconductor industry historically has been volatile, with periods of rapid growth followed by downturns. One such downturn started in fiscal 2001 and persisted throughout most of fiscal 2003. The industry recovered from this downturn in late fiscal 2003 through the first three quarters of fiscal 2004. As a result of the industry recovery throughout the majority of fiscal 2004 and our continuing efforts to reduce our operating expenses and manage our business, we achieved the following in fiscal 2004:

Net sales increased 50.2% to \$717.8 million

SG&A and R&D expenses decreased by \$4.6 million

Long term notes were refinanced resulting in: a \$13.2 million reduction in annualized cash interest expense (\$7.0 million in fiscal 2004); a \$30 million reduction in our long term notes and; an extension of the maturity date of the long term notes.

Generated net income of \$55.9 million

Generated \$71.3 million of cash from operating activities

While we achieved the above positive results in fiscal 2004, in the fourth quarter of fiscal 2004 we experienced a 24.2% fall-off in sales compared to our third quarter. Based on declining order activity in the fourth quarter of fiscal 2004, customer indications and other factors we believe that the semiconductor industry entered a downturn. There can be no assurances regarding levels of demand for our products, and in any case, we believe the historical volatility both upward and downward will persist.

During the industry downturn from fiscal 2001 through most of fiscal 2003, we incurred significant resizing charges to scale down the size of our business and consolidated operations. Even after implementing these formal resizing plans (see Note 3 to our Condensed Consolidated Financial Statements), we have continued to lower our cost structure by further consolidating operations, moving certain of our manufacturing capacity to China, moving a portion of our supply chain to lower cost suppliers and designing better but lower cost equipment. Cost reduction efforts have become an important part of our normal ongoing operations and we believe this will drive down our cost structure below current levels, while not diminishing our product quality. However, we expect to incur additional quarterly charges such as severance and facility closing costs as a result of these long-term cost reduction programs. Our goal is to be both the technology leader, and the lowest cost supplier in each of our major lines of business.

We reported a loss from operations of our test business segment of \$21.5 million in fiscal 2004. We are continuing with our plan to improve the performance of this segment through: new product introductions, consolidation of test facilities, the transfer of a greater portion of test production to our Asia facilities, and outsourcing a greater portion of the test production. We expect this plan will continue through 2005 and will result in future period charges and/or restructuring charges.

Table of Contents**Products and Services**

We offer a range of wire bonding equipment and spare parts, packaging materials and test interconnect products. Set forth below is a table listing the percentage of our total net sales from continuing operations for each business segment for the three fiscal years ended September 30, 2002, 2003 and 2004:

(dollars in thousands)
Fiscal Year Ended September 30,

	2002		2003 ⁽¹⁾		2004	
	Net Sales	% of Total Net Sales	Net Sales	% of Total Net Sales	Net Sales	% of Total Net Sales
Equipment	\$ 169,469	38%	\$ 198,447	42%	\$ 361,244	50%
Packaging materials	157,176	36%	174,471	37%	234,690	33%
Test interconnect	114,698	26%	104,882	22%	121,877	17%
Other ⁽²⁾	222	0%	135	0%		0%
	<u>\$ 441,565</u>	<u>100%</u>	<u>\$ 477,935</u>	<u>100%</u>	<u>\$ 717,811</u>	<u>100%</u>

(1) In the fourth quarter of fiscal 2003, we sold the assets related to the saw and hard material blade businesses that were part of the equipment segment and packaging materials segment, respectively. Those businesses had fiscal 2003 net sales of \$11.3 million.

(2) Comprised of sales associated with our substrate business that was closed in fiscal 2002.

Over time, our equipment sales are highly volatile, based on the semiconductor industry's need for new capability and capacity, whereas packaging materials and test interconnect sales tend to be more stable, following the trend of total semiconductor unit production.

See Note 13 to our Consolidated Financial Statements for financial results by business segment.

Equipment

We manufacture and market a line of wire bonders, which are used to connect very fine wires, typically made of gold, aluminum or copper, between the bond pads of a semiconductor die and the leads on the integrated circuit (IC) package to which the die has been attached. We believe that our wire bonders offer competitive advantages by providing customers with high productivity/throughput and superior package quality/process control. In particular, our machines are capable of performing very fine pitch bonding as well as creating the sophisticated wire loop shapes that are needed in the assembly of advanced semiconductor packages. Our principal products are:

Ball Bonders. Automatic IC ball bonders represent a large majority of our semiconductor equipment business. As part of our competitive strategy, we have been introducing new models of IC ball bonders every 15 to 24 months, with each new model designed to increase both

Edgar Filing: KULICKE & SOFFA INDUSTRIES INC - Form POS AM

productivity and process capability compared to its predecessor. In May 2002, we began marketing the Maxum IC ball bonder, which offered up to 20% more productivity than its predecessor. In the second quarter of fiscal 2004, we began shipping the Maxum Plus to customers offering further productivity increases, as well as process capability improvements. In addition, in January of 2003, we began shipping the Nu-Tek , a new automatic wire bonder optimized for low lead count ICs and discrete device applications, which are both segments of the market where we had not previously participated.

Specialty Wire Bonders. We also produce other models of wire bonders, targeted at specific market niches, including: the Model 8098, a large area ball bonder designed for wire bonding hybrid, chip on board, and other large area applications; the WaferPRO Plus , for wafer level bumping for area array applications; the Triton RDA , a wedge bonder designed for ribbon bonding; and the Model 8090, a large area wedge bonder. We also manufacture and market a line of manual wire bonders.

We believe that our industry knowledge and technical experience have positioned us to deliver innovative, customer-specific offerings that reduce the cost of owning our equipment over its useful life. In response to customer trends in outsourcing packaging requirements, we provide repair and maintenance services, a variety of equipment upgrades, machine and component rebuild activities and expanded customer training through our customer operations group.

Packaging Materials

We manufacture and market a range of semiconductor packaging materials and expendable tools for the semiconductor

Table of Contents

assembly market, including very fine gold, aluminum and copper wire, capillaries, wedges, die collets and saw blades, all of which are used in packaging and assembly processes. Our packaging materials are designed for use on both our own and our competitors' assembly equipment. A wire bonder uses a capillary or wedge tool and bonding wire much like a sewing machine uses a needle and thread. Our principal products are:

Bonding Wire. We manufacture very fine gold, aluminum and copper wire used in the wire bonding process. This wire is bonded to the chip surface and package substrate by the wire bonder and becomes a permanent part of the customer's semiconductor package. We produce wire to a wide range of specifications, which can satisfy most wire bonding applications across the spectrum of semiconductor packages.

Expendable Tools. Our expendable tools include a wide variety of capillaries, wedges, die collets and wafer saw blades. The capillaries and wedges actually attach the wire to the semiconductor chip, allow a precise amount of wire to be fed out to form a permanent wire loop, then attach the wire to the package substrate, and finally cut the wire so that the bonding process can be repeated again. Die collets are used to pick up and place die into packages before the wire bonding process begins. Our hub blades are used to cut silicon wafers into individual semiconductor die.

Test Interconnect

We offer a broad range of fixtures used to temporarily contact a semiconductor device while it is still in the wafer format (wafer probing), thereby providing electrical connections to automatic test equipment. We also offer test sockets used to test the final semiconductor package (package or final testing). Our principal test interconnect products are:

Probe cards. Probe cards consist of complex, multilayer printed circuit boards (PCB) upon which are attached numerous probe needles designed to make temporary contact to each of the bond pads or bumps on a die while the die is still in a wafer format, providing electrical connections to automatic test equipment.

Automatic Test Equipment (ATE) interface assemblies. ATE interface assemblies typically consist of electro-mechanical assemblies, electrical contactors and intricate multilayer PCBs, which mechanically and electrically connect to the ATE test prober and carry electrical signals to a probe card, and ultimately the semiconductor device under test.

Test sockets. Test sockets hold packaged semiconductor devices while making electrical connections to their leads through spring loaded contacts.

Changes in the design of a semiconductor device often require changes in the probe card, test socket and, in certain cases, the ATE interface assembly used to test that semiconductor. Customers generally purchase new versions of these custom-designed products each time there is a design change in the semiconductor being tested. Changes in semiconductor design and processes drive improvements in test interconnect technology in order to support significant increases in the number and density of bond pads or leads being tested and the speed of the electrical signals being tested.

Accounting Policies, Pronouncements and Estimates

We believe the following accounting policy is critical to the preparation of our financial statements:

Revenue Recognition. Our revenue recognition policy is in accordance with Staff Accounting Bulletin No. 104 (SAB 104), *Revenue Recognition*. We recognize revenue when persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, the price is fixed or determinable, the collectibility is reasonably assured, and we have satisfied any equipment installation obligations and received customer acceptance, or are otherwise released from our installation or customer acceptance obligations. In the event terms of the sale provide for a lapsing customer acceptance period, we recognize revenue based upon the expiration of the lapsing acceptance period or customer acceptance, whichever occurs first. Our standard terms are Ex Works (K&S factory), with title transferring to our customer at our loading dock or upon embarkation. We do have a small percentage of sales with other terms, and revenue is recognized in accordance with the terms of the related customer purchase order. Revenue related to services is generally recognized upon performance of the services requested by a customer order. Revenue for extended maintenance service

Table of Contents

contracts with a term more than one month is recognized on a prorated straight-line basis over the term of the contract. Revenue from royalty arrangements and license agreements is recognized in accordance with the contract terms, generally prorated over the life of the contract or based upon specific deliverables. Our business is subject to contingencies related to customer orders as follows:

Right of Return: A large portion of our revenue comes from the sale of machines that are used in the semiconductor assembly process. These items are generally built to order, and often include customization to a customer's specifications. Other product sales relate to consumable products, which are sold in high-volume quantities, and are generally maintained at low stock levels at our customer's facility. As a result, customer returns represent a very small percentage of customer sales on an annual basis. Our policy is to provide an allowance for customer returns based upon our historical experience and management assumptions.

Warranties: Our products are generally shipped with a one-year warranty against manufacturer's defects and we do not offer extended warranties in the normal course of our business. We recognize a liability for estimated warranty expense when revenue for the related product is recognized. The estimated liability for warranty is based upon historical experience and our estimates of future expenses.

Conditions of Acceptance: Sales of our consumable products and bonding wire generally do not have customer acceptance terms. In certain cases, sales of our equipment products do have customer acceptance clauses which generally require that the equipment perform in accordance with specifications during an on-site factory inspection by the customer, as well as when installed at the customer's facility. In such cases, if the terms of acceptance are satisfied at our facility prior to shipment, the revenue for the equipment will be recognized upon shipment. If the customer must first install the equipment in their own factory, then generally, revenue associated with that sale is not recognized until acceptance is received from the customer.

Price Protection: We do not provide price protection to our customers.

Critical Estimates and Assumptions:

Generally accepted accounting principles require the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The more significant areas involving the use of estimates in our financial statements include allowances for uncollectible 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, self insurance reserves, pension benefit liabilities, resizing, warranty, litigation. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which are the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

We believe the following accounting policies require significant judgments and estimates:

Allowance for Doubtful Accounts. We maintain allowances for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments. If the financial condition of our customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. We are also subject to concentrations of customers and sales to a few geographic locations, which would also impact the collectability of certain receivables. If economic or political conditions were to change in some of the countries where we do business, it could have a significant impact on the results of our operations, and our ability to realize the full value of our accounts receivable.

Edgar Filing: KULICKE & SOFFA INDUSTRIES INC - Form POS AM

Inventory Reserves. We generally provide reserves for equipment inventory and spare part and consumable inventories considered to be in excess of 18 months of forecasted future demand, and test interconnect inventory considered to be in excess of 12 months of forecasted future demand. The forecasted demand is based upon internal projections, historical sales volumes, customer order activity and a review of consumable inventory levels at our customers' facilities. We communicate forecasts of our future demand to our suppliers and adjust commitments to those suppliers accordingly. If

- 39 -

Table of Contents

required, we rereserve for the difference between the carrying value of our inventory and the lower of cost or market value, based upon assumptions about future demand, market conditions and the next cyclical market upturn. If actual market conditions are less favorable than our projections, additional inventory reserves may be required. We review and dispose of excess and obsolete inventory on a regular basis.

Valuation of Long-lived Assets. Our long-lived assets include property, plant and equipment, goodwill and intangible assets. Our property, plant and equipment and intangible assets are depreciated over their estimated useful lives, and are reviewed for impairment whenever changes in circumstances indicate the carrying amount of these assets may not be recoverable. The fair value of our goodwill and intangible assets is based upon our estimates of future cash flows and other factors to determine the fair value of the respective assets. We manage and value our intangible technology assets in the aggregate, as one asset group, not by individual technology. We perform our annual goodwill and intangible assets impairment test in the fourth quarter of each fiscal year, which coincides with our annual planning process. We also test for impairment whenever a triggering event occurs. Our impairment testing resulted in an impairment charge of \$5.7 million in fiscal 2003 in our flip chip business unit and a fiscal 2002 impairment charge of \$72.0 million in the test business unit and \$2.3 million in the hub blade business. If these estimates or their related assumptions change in the future, we may be required to record additional impairment charges in accordance with SFAS 142 and SFAS 144.

Deferred Taxes. We record a valuation allowance to reduce our deferred tax assets to the amount that we expect is more likely than not to be realized. While we have considered future taxable income and ongoing prudent and feasible tax planning strategies in assessing the need for the valuation allowance, if we were to determine that we would be able to realize our deferred tax assets in the future in excess of our net recorded amount, an adjustment to the deferred tax asset would increase income in the period such determination was made. Likewise, should we determine that we would not be able to realize all or part of our net deferred tax assets in the future, an adjustment to the deferred tax asset would decrease income in the period such determination was made. In fiscal 2003 and 2002 we established a valuation allowance against our deferred tax assets generated from our U.S. net operating losses. In fiscal 2004 we reversed the portion of the valuation allowance that was equal to the U.S. federal income tax expense on our U.S. income. If the Company were to generate additional U.S. net operating loss carryforwards, additional valuation allowances would be set up against these deferred tax assets.

Accounting for Costs Associated with Exit or Disposal Activities - In June 2002, the FASB issued SFAS 146, *Accounting for Exit or Disposal Activities* which addresses significant issues regarding the recognition, measurement, and reporting of costs that are associated with exit and disposal activities, including restructuring activities that are currently accounted for pursuant to the guidance that the Emerging Issues Task Force (EITF) has set forth in EITF 94-3, *Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity* (including Certain Costs Incurred in a Restructuring). We have adopted this standard and the adoption did not have a material impact on our financial position and results of operations, however, this standard will in certain circumstances change the timing of recognition of restructuring (resizing) costs.

Overview of Statement of Operations

Net sales. Our equipment sales depend on the capital expenditures of semiconductor manufacturers and subcontract assemblers worldwide which, in turn, depend on the current and anticipated market demand for semiconductors and technology driven advancements in semiconductor design. The semiconductor industry historically has been highly volatile, and has experienced periodic downturns followed by rebounds. Downturns have had a severe effect on the semiconductor industry's demand for capital equipment. For example, a downturn in the semiconductor industry from fiscal 2001 through most of fiscal 2003 contributed to lower net sales in each of those fiscal years in comparison to our fiscal 2000 net sales. This downturn was followed by increased market demand during most of our fiscal 2004 resulting in an 82.0% increase in our equipment net sales in fiscal 2004 compared to fiscal 2003. In the fourth quarter of fiscal 2004, we announced weakening customer demand for our equipment and we expect further weakening in the first quarter of fiscal 2005.

Edgar Filing: KULICKE & SOFFA INDUSTRIES INC - Form POS AM

Our packaging materials sales depend on manufacturing expenditures of semiconductor manufacturers and subcontract assemblers, many of which also purchase our equipment products. However, the volatility in demand for our packaging materials is less than that of our equipment sales due to the consumable nature of these products.

- 40 -

Table of Contents

Our test interconnect solutions sales depend on the manufacturing expenditures of some of the same semiconductor manufacturers and subcontractors as our equipment and packaging materials sales as well as other customers. Because of the consumable and customized nature of most of our test products, however, the volatility in demand for these test products is less than that of our equipment sales.

Cost of goods sold. Equipment cost of goods sold consists mainly of subassemblies, materials, direct and indirect labor costs and other overhead. We rely on subcontractors to manufacture many of the components and subassemblies for our products and we rely on sole source suppliers for some material components.

Packaging materials cost of goods sold consists primarily of gold and aluminum, direct labor and other materials used in the manufacture of bonding wire, capillaries, wedges and other company products, with gold making up the majority of the cost. Gold bonding wire is generally priced based on a fabrication charge per 1,000 feet of wire, plus the value of the gold. To minimize our exposure to gold price fluctuations, we obtain gold for fabrication under a contract with our gold supplier which generally matches the price we pay for the gold with the price we invoice our customers. Accordingly, fluctuations in the price of gold are generally absorbed by our gold supplier or passed on to our customers. Since gold makes up a significant portion of the cost of goods sold of our bonding wire business unit, the gross profit as a percentage of sales of that business unit and therefore the packaging materials segment will be lower than can be expected in the equipment business. We rely on one supplier for our gold requirements.

Test interconnect cost of goods sold consists primarily of direct labor and indirect labor for engineering design and materials used in the manufacture of wafer and IC package testing cards and devices.

Selling, general and administrative expense. Our selling, general and administrative expense is comprised primarily of personnel and related costs, professional costs, and depreciation expense.

Research and development expense. Our research and development costs consist primarily of labor, prototype material and other costs associated with our development efforts to strengthen our product lines and develop new products and depreciation expense. Included in research and development expense is the cost to develop the software that operates our semiconductor assembly equipment, which is expensed as incurred. We expect to continue to incur significant research and development costs.

Table of Contents**Results of Operations***Fiscal Years Ended September 30, 2004, September 30, 2003 and September 30, 2002*

The table below shows the principal line items from our historical consolidated statements of operations, as a percentage of our net sales, for the three years ended September 30:

	Fiscal Year Ended		
	September 30,		
	2002	2003	2004
Net sales	100.0%	100.0%	100.0%
Cost of goods sold	77.2	73.2	67.8
Gross margin	22.8	26.8	32.2
Selling, general and administrative	30.6	21.4	14.1
Research and development, net	11.8	8.0	4.8
Resizing	4.3	(0.1)	(0.0)
Asset impairment	7.2	0.8	0.5
Goodwill impairment	16.8		
Amortization of goodwill and intangibles	2.2	1.9	1.3
Gain on sale of assets			(0.1)
Loss on sale of product lines		1.1	
Income (loss) from operations	(50.0)%	(6.3)%	11.7%

Fiscal Years Ended September 30, 2004 and September 30, 2003

Bookings and Backlog. During the fiscal year ended September 30, 2004, we recorded bookings of \$718.5 million compared to \$488.8 million in fiscal 2003. A booking is recorded when a customer order is reviewed and a determination is made that all specifications can be met, production (or service) can be scheduled, a delivery date can be set, and the customer meets the Company's credit requirements. At September 30, 2004, the backlog of customer orders totaled \$59.7 million, compared to \$59.9 million at September 30, 2003. Since the timing of deliveries may vary and orders are generally subject to cancellation, our backlog as of any date may not be indicative of net sales for any succeeding period. For example, on August 10, 2004, we announced that discussions with customers indicated a general slowing in the rate of semiconductor growth. As a result, some of these customers requested that we delay the shipment of wire bonders previously ordered and included in our backlog of customer orders at June 30, 2004.

Sales

Edgar Filing: KULICKE & SOFFA INDUSTRIES INC - Form POS AM

Business segment net sales:

	<i>(dollars amounts in thousands)</i>		
	Fiscal year ended September 30,		
	2003	2004	Change
			%
Equipment	\$ 198,447	\$ 361,244	82.0%
Packaging materials	174,471	234,690	34.5%
Test interconnect	104,882	121,877	16.2%
Other ⁽¹⁾	135		NA
	\$ 477,935	\$ 717,811	50.2%

(1) Comprised of residual sales associated with our substrate business that was closed in fiscal 2002.

Sales. Net sales from continuing operations for the year ended September 30, 2004 were \$717.8 million, an increase of 50.2% from \$477.9 million in fiscal 2003 due primarily to the improved demand in the semiconductor industry for our automatic ball bonders throughout the majority of fiscal 2004.

Our equipment segment was the primary beneficiary of the increased demand in the semiconductor industry during fiscal

Table of Contents

2004, recording an 82.0% increase in net sales compared to the prior year. According to VLSI Research, our market share of worldwide revenue for automatic ball bonders for the first half of calendar 2004 increased to 49% from 41% in the second half of calendar 2003 and 36% in the first half of calendar 2003. The higher net sales resulted primarily from a 122.1% increase in unit sales of our automatic ball bonders. We recorded our highest quarterly ball bonder unit volume in the history of the Company in the second quarter of fiscal 2004. This large percentage increase in ball bonder unit sales was partially offset by the elimination of sales of dicing saws in fiscal 2004 due to the sale of this business in August 2003, relatively flat sales in specialty bonders and spare parts, and a lower average selling price (ASP) per ball bonder. The blended ASP for our automatic ball bonders was 5.1% lower than the prior year, due primarily to customer mix. This reflected general lowering of ASP for any particular model over its product life cycle. To mitigate this we introduce new models with additional features that enable us to demand a higher selling price. We experienced a higher ASP on our newer Maxum Plus model compared to Maxum. The blended ASP varies with the proportion of newer models sold and with customer mix.

Our packaging materials business also benefited from the increased demand in the semiconductor industry with a \$60.2 million or 34.5% increase in net sales. Our capillary unit sales were up 26.3% in fiscal 2004 compared to the prior year. Blended capillary ASP was down slightly (2.9%) from the prior year. The reduction in blended capillary ASP is a function of the general decline in unit prices and mix between high and low end capillaries. High end capillaries support advanced packaging applications and have higher ASPs. As in our equipment business, we introduce new capillaries with additional capabilities that enable us to demand a higher selling price. Our wire unit sales (measured in Kft) increased 36.6% in fiscal 2004 over the prior year due to increased orders from existing customers and new customers. Wire ASP is heavily dependent upon the price of gold and can fluctuate significantly from period to period. In fiscal 2004 the price of gold accounted for approximately \$20.6 million of the sales increase over the prior year and the increase in unit volume accounted for approximately \$28.5 million of the increase.

Our test interconnect sales were \$17.0 million in fiscal 2004 or 16.2% above the prior year. Our vertically configured retractable pin probe cards accounted for \$13.4 million of the increase due to higher unit sales. Net sales of our other major test product lines were slightly above the prior year but negatively impacted by the sale of our PC board business in the second quarter of fiscal 2004. Our sales of PC board products were approximately \$5.5 million lower in fiscal 2004 compared to the prior year. Blended ASPs are not meaningful in the test business due to lack of a standard unit of measure and the large difference in part types sold. As such, blended ASPs are not a metric used by management for test interconnect sales.

The majority of our sales are to customers that are located outside of the United States or that have manufacturing facilities outside of the United States. Shipments of our products with ultimate foreign destinations comprised 86% of our total sales in fiscal 2004 compared to 80% in the prior fiscal year. The majority of these foreign sales were to customer locations in the Asia/Pacific region, including Taiwan, Malaysia, Singapore, Korea and Japan. Taiwan accounted for the largest single destination for our product shipments with 25% of our shipments in fiscal 2004 compared to 20% of our shipments in the prior fiscal year.

Table of Contents**Gross Profit**

Business segment gross profit:

(dollars amounts in thousands)
Fiscal year ended September 30,

	2003	% Sales	2004	% Sales
Equipment	\$ 69,355	34.9%	\$ 152,382	42.2%
Packaging materials	41,692	23.9%	52,032	22.2%
Test interconnect	17,026	16.2%	26,591	21.8%
Other ⁽¹⁾	135	100.0%		NA
	<u>\$ 128,208</u>	<u>26.8%</u>	<u>\$ 231,005</u>	<u>32.2%</u>

(1) Comprised of residual gross profit associated with our substrate business that was closed in fiscal 2002.

Gross profit. Gross profit increased 80.2% (\$102.8 million) in fiscal 2004 from the prior year and our gross margin (gross profit as a percentage of net sales) improved 5.4 percentage points. The higher gross profit and gross margin was primarily due to the improved demand in the semiconductor industry, particularly for our automatic ball bonders. Included in the results for fiscal 2004 were \$1.5 million of inventory write-downs. Included in the results for fiscal 2003 is a charge for inventory write-downs of \$5.1 million.

Our equipment gross profit increased 119.7% (\$83.0 million) from the prior year and the equipment gross margin increased 7.3 percentage points from the prior year. The higher sales volume of ball bonders accounted for \$55.1 million of the increased gross profit and an 18.1% reduction in the manufacturing cost per ball bonders partially offset by the lower ASP accounted for \$24.4 million of the improvement. Our lower cost per unit was the main reason for the 7.3 percentage point increase in gross margin and due to the lowering of production costs over our products' life cycle via better supply chain management, engineering more cost effective parts and volume purchasing.

Our packaging materials gross profit increased 24.8% (\$10.3 million) from the prior year, with capillaries gross profit accounting for \$7.9 million of the increase. Higher capillary unit volume accounted for \$5.9 million of this improvement and lower capillary costs associated with shifting a portion of capillary production to China accounted for \$3.1 million of the variance. These favorable results were partially offset by lower capillary ASP's. Our wire gross profit was approximately \$4.9 million higher than the prior year reflecting higher unit sales (measured in Kft) but the wire gross margin was lower than the prior year due to the increase in the price of gold, which makes up a significant portion of our wire cost of sales.

Our test interconnect business gross profit increased 56.2% (\$9.6 million) and its gross margin increased 5.6 percentage points. The higher gross profit and gross margin was due primarily to higher unit sales in our vertically configured retractable pin probe cards and test sockets product lines and the associated manufacturing efficiencies. Duplicate costs associated with the start-up of production of cantilever products in our China facility partially offset the positive impact from the higher vertical and package test sales.

Table of Contents**Operating Expenses**

(dollars amounts in thousands)
Fiscal year ended September 30,

	2003	%	2004	%
		Sales		Sales
Selling, general and administrative	\$ 102,327	21.4%	\$ 101,225	14.1%
Research and development, net	38,121	8.0%	34,611	4.8%
Resizing(recovery) costs	(475)	-0.1%	(68)	0.0%
Asset impairment	3,629	0.8%	3,293	0.5%
Gain on sale of assets		0.0%	(1,023)	-0.1%
Amortization of intangible assets	9,260	1.9%	9,022	1.3%
Loss on sale of product lines	5,257	1.1%		0.0%
	<u>\$ 158,119</u>	<u>33.1%</u>	<u>\$ 147,060</u>	<u>20.5%</u>

Selling, general and administrative expenses. SG&A expenses were relatively flat when compared with the prior year but SG&A expense as a percentage of sales was down 7.3 percentage points. In fiscal 2004, SG&A expense included a variable expense for incentive compensation of \$10.3 million compared to no expense for incentive compensation in the prior year. Also included in fiscal 2004 were: severance charges of \$4.5 million (\$2.1 million of which was associated with the closing of a probe card production facility in France); and \$1.6 million of start-up costs in our China facility to transition production capacity. Included in the SG&A expense for fiscal 2003 were: costs associated with workforce reductions (severance) of \$5.2 million; start-up costs for our new China facility of approximately \$2.0 million; and a \$0.7 million charge for the early termination of an information technology services agreement, partially offset by the favorable reversal of a \$2.0 million reserve previously established for potential obligations to U.S. Customs. Other than the above mentioned costs, our SG&A costs were lower than the prior year and reflected our efforts to contain operating costs with higher sales volume.

The workforce reduction/severance charges identified in the previous paragraph were included in SG&A expense because they were not related to formal and distinct restructuring programs, but rather, they were normal and recurring management of employment levels in response to business conditions and our ongoing effort to reduce our cost structure. Also, if the business conditions had improved, we were prepared to rehire some of these terminated individuals. These charges are in contrast to the formal and distinct resizing programs we established in prior fiscal years.

Research and development. Research and development (R&D) expense in fiscal 2004 decreased \$3.5 million or 9.2% from fiscal 2003. While we saw lower payroll and related expenses due to our ongoing cost reduction efforts, we continued to invest in the development of next-generation wire bonders and new products for our test interconnect business. In fiscal 2004 we also purchased a license for an interconnection device which we believe will form the nucleus for our next-generation of semiconductor sockets for our package test products.

Resizing: The semiconductor industry has been volatile, with sharp periodic downturns. The industry experienced excess capacity and a severe contraction in demand for semiconductor manufacturing equipment during our fiscal 2001, 2002 and most of 2003. We developed formal resizing plans in response to these changes in the business environment with the intent to align our cost structure with anticipated revenue levels. Accounting for resizing activities requires an evaluation of formally agreed upon and approved plans. We documented and committed to these plans to reduce spending that included facility closings/rationalizations and reductions in workforce. We recorded the expense associated with these plans in the period that we committed to carry-out the plans. Although we made every attempt to consolidate all known resizing activities

Edgar Filing: KULICKE & SOFFA INDUSTRIES INC - Form POS AM

into one plan, the extreme cycles and rapidly changing forecasting environment places limitations on achieving this objective. The recognition of a resizing event does not necessarily preclude similar but unrelated actions in future periods.

In fiscal 2004, we reversed \$68 thousand of these resizing charges and in fiscal 2003 we reversed \$475 thousand of these resizing charges due to the actual severance cost associated with the terminated positions being less than the cost originally estimated. We recorded resizing charges of \$18.8 million in fiscal 2002 and \$4.2 million in fiscal 2001.

- 45 -

Table of Contents

In addition to the formal resizing costs identified below, we continued (and are continuing) to downsize our operations in fiscal 2002, 2003 and 2004. These downsizing efforts resulted in workforce reduction charges of \$4.5 million in fiscal 2004, \$5.6 million in fiscal 2003 and \$5.0 million in fiscal 2002. In contrast to the resizing plans discussed above, these workforce reductions were not related to formal or distinct restructurings, but rather, the normal and recurring management of employment levels in response to business conditions and our ongoing effort to reduce our cost structure. In addition, during fiscal 2003, if the business conditions were to have improved, we were prepared to rehire some of these terminated individuals. These recurring workforce reduction charges were recorded as Selling, General and Administrative expenses.

A summary of the charges, reversals and payments of the formal resizing plans initiated in fiscal 2002 appears below:

Fiscal 2002 Resizing Plans	<i>(in thousands)</i>		
	Severance and Benefits	Commitments	Total
Provision for resizing plans in fiscal 2002			
Continuing operations	\$ 9,486	\$ 9,282	\$ 18,768
Discontinued operations	893		893
Payment of obligations in fiscal 2002	(5,914)	(300)	(6,214)
Balance, September 30, 2002	4,465	8,982	13,447
Change in estimate	(455)		(455)
Payment of obligations in fiscal 2003	(3,135)	(3,192)	(6,327)
Balance, September 30, 2003	875	5,790	6,665
Change in estimate	(68)		(68)
Payment of obligations	(440)	(2,619)	(3,059)
Balance, September 30, 2004	\$ 367	\$ 3,171	\$ 3,538

The individual resizing plans and acquisition restructuring plans initiated in fiscal 2002 are identified below:

Fourth Quarter 2002

In January 1999, we acquired the advanced substrate technology of MicroModule Systems, a Cupertino, California company, to enable production of high density substrates. While showing some progress in developing our substrate technology, the business was not profitable and would have required additional capital and operating cash to complete development of the technology. In light of the business downturn that was affecting the semiconductor industry at the time, in the fourth quarter of fiscal 2002, we announced that we could not afford to further develop the substrate technology and would close our substrate operations. As a result, we recorded a resizing charge of \$8.5 million. The resizing charge included a severance charge of \$1.2 million for the elimination of 48 positions and lease obligations of \$7.3 million. We expected, and achieved, annual payroll related savings of approximately \$4.2 million and annual facility/operating savings of approximately \$3.9 million as a result of this resizing plan. By June 30, 2003, all the positions had been eliminated. The plans have been completed but cash payments for the lease obligations are expected to continue into 2006, or such time as the obligations can be satisfied. In addition to these resizing charges, in the fourth quarter of fiscal 2002, we wrote-off \$7.3 million of fixed assets and \$1.1 million of intangible assets associated with the closure of the substrate operation. This substrate business was included in our then existing advanced packaging business segment.

Third Quarter 2002

As a result of the continuing downturn in the semiconductor industry and our desire to improve the performance of our test business segment, we decided to move towards a 24 hour per-day manufacturing model in our major U.S. wafer test facility, which would provide our customers with faster turn-around time and delivery of orders and economies of scale in manufacturing. As a result, in the third quarter of fiscal 2002, we announced a resizing plan to reduce headcount and consolidate manufacturing in our test business segment. As part of this plan, we moved manufacturing of wafer test products from our facilities in Gilbert, Arizona and Austin, Texas to our facilities in San Jose, California and Dallas, Texas and from our Kaohsiung, Taiwan facility to our Hsin Chu, Taiwan facility. The resizing plan included a severance

- 46 -

Table of Contents

charge of \$1.6 million for the elimination of 149 positions as a result of the manufacturing consolidation. The resizing plan also included a charge of \$0.5 million associated with the closure of the Kaohsiung, Taiwan facility and an Austin, Texas facility representing costs of non-cancelable lease obligations beyond the facility closure and costs required to restore the production facilities to their original state. We expected, and achieved, annual payroll related savings of approximately \$6.9 million and annual facility/operating savings of approximately \$84 thousand as a result of this resizing plan. All of the positions have been eliminated and both facilities have been closed. The plans have been completed but cash payments for the severance, facility and contractual obligations are expected to continue through 2005, or such earlier time as the obligations can be satisfied.

Second Quarter 2002

As a result of the continuing downturn in the semiconductor industry and our desire to more efficiently manage our business, in the second quarter of fiscal 2002, we announced a resizing plan comprised of a functional realignment of business management and the consolidation and closure of certain facilities. In connection with the resizing plan, we recorded a charge of \$11.3 million (\$10.4 million in continuing operations and \$0.9 million in discontinued operations), consisting of severance and benefits of \$9.7 million for 372 positions that were to be eliminated as a result of the functional realignment, facility consolidation, the shift of certain manufacturing to China (including the Company's hub blade business) and the move of our microelectronics products to Singapore and a charge of \$1.6 million for the cost of lease commitments beyond the closure date of facilities to be exited as part of the facility consolidation plan.

In the second quarter of fiscal 2002, we closed five test facilities: two in the United States, one in France, one in Malaysia, and one in Singapore. These operations were absorbed into other company facilities. The resizing charge for the facility consolidation reflects the cost of lease commitments beyond the exit dates that are associated with these closed test facilities.

To reduce our short term cash requirements, we decided, in the fourth quarter of fiscal 2002, not to relocate our hub blade manufacturing facility from the United States to China or our microelectronics product manufacturing from the United States to Singapore, as previously announced. This change in our facility relocation plan resulted in a reversal of \$1.6 million of the resizing costs recorded in the second quarter of fiscal 2002. As a result, we reduced our expected annual savings from this resizing plan for payroll related expenses by approximately \$4.7 million.

Also in the fourth quarter of fiscal 2002, we reversed \$600 thousand (\$590 thousand in continuing operations and \$10 thousand in discontinued operations) of the severance resizing expenses and in the fourth quarter of fiscal 2003 we reversed \$353 thousand of resizing expenses, previously recorded in the second quarter of fiscal 2002, due to actual severance costs associated with the terminated positions being less than those estimated as a result of employees leaving the Company before they were severed.

As a result of the functional realignment, we terminated employees at all levels of the organization from factory workers to vice presidents. The organizational change shifted management of our Company businesses to functional (i.e. sales, manufacturing, research and development, etc.) areas across product lines rather than by product line. For example, research and development activities for the entire company are now controlled and coordinated by one corporate vice president under the functional organizational structure, rather than separately by each business unit. This structure provides for a more efficient allocation of human and capital resources to achieve corporate R&D initiatives.

We expected annual payroll related savings of approximately \$17.3 million and annual facility/operating savings of approximately \$660 thousand as a result of this resizing plan. As a result of the decision not to relocate our hub blade manufacturing facility or our microelectronics product manufacturing we ultimately achieved annual payroll related savings of approximately \$12.7 million. The plans have been completed but cash payments for the severance charges are expected to continue into 2005, or such time as the obligations can be satisfied.

Asset impairment. In fiscal 2004, we recorded an asset impairment charge of \$3.3 million associated with exiting our PC board fabrication business and the closure of a probe card production facility in France. The fiscal 2003 charge included; \$1.7 million associated with the discontinuation of a test product; \$1.2 million due to the reduction in the size of a test facility in Dallas, Texas; and \$730 thousand resulting from the write-down of assets that were sold and assets that became obsolete.

Table of Contents

We perform our annual test for impairment of intangible assets at the end of the fourth quarter of each fiscal year, which coincides with the completion of our annual forecasting process. However, we also test for impairment whenever a triggering event occurs. We performed interim goodwill impairment tests on the goodwill associated with our test interconnect business during the quarters ended December 31, 2003 and March 31, 2004 due to the existence of an impairment trigger, which was the losses experienced at this business. Based on the results of these tests and our annual impairment test on intangibles assets associated with both our wire and test businesses, no impairment charge was recorded in fiscal 2004. The fair value of the wire and test reporting units was based on discounted cash flows of our projected future cash flows from this reporting unit, consistent with the methods used in fiscal 2002 and 2003. When conducting our goodwill impairment analysis, we calculate our potential impairment charges based on the two-step test identified in SFAS 142 and using the implied fair value of the respective reporting units. We use the present value of future cash flows from the respective reporting units to determine the implied fair value. We also tested our intangible assets for impairment in the March 2004 quarter, as a result of the sale of certain assets of the test operations and recorded an impairment charge of \$3.2 million associated with the reporting unit's purchased technology intangible asset. The \$3.2 million charge is included in the \$3.3 million asset impairment charge recorded in fiscal 2004.

In fiscal 2003, we also recorded an asset impairment charge of \$6.9 million, to write-down assets to their realizable value, in our discontinued flip chip operation.

Gain in sale of assets. In fiscal 2004, we realized a gain of \$938 thousand on the sale of land and a building and \$85 thousand on the sale of a portion of our PC board business.

Amortization of intangibles. Amortization expense in both fiscal 2003 and 2004 was associated with our intangible assets for customer accounts and completed technology arising from the acquisition of our test division. The slightly lower amortization expense in fiscal 2004 compared to the prior year was due to the impairment of our complete technology intangible asset mentioned above. The aggregate amortization expense for these items for each of the next five fiscal years is expected to approximate \$8.8 million.

Loss on sale of product lines. In the fourth quarter of fiscal 2003, we sold the fixed assets, inventories and intellectual property associated with our saw and hard material blade product lines for \$1.2 million in cash. We wrote-off \$6.5 million of net assets associated with the transaction. In addition, we sold the assets associated with our polymers business for \$105 thousand. This loss on sale of product lines of \$5.3 million has been reclassified to be included in our operating expenses section of the consolidated statement of operations, from its prior presentation outside of the operating results.

Income (loss) from operations

Income (loss) from operations by business segments appears below:

	<i>(dollars amounts in thousands)</i>			
	Fiscal year ended September 30,			
	2003	% Sales	2004	% Sales
Equipment	\$ (2,323)	-1.2%	\$ 93,311	25.8%

Edgar Filing: KULICKE & SOFFA INDUSTRIES INC - Form POS AM

Packaging materials	15,008	8.6%	30,090	12.8%
Test interconnect	(27,192)	-25.9%	(21,516)	-17.7%
Corporate and other	(15,404)	NA	(17,940)	NA
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
	\$ (29,911)	-6.3%	\$ 83,945	11.7%
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

Our income from operations in fiscal 2004 was \$83.9 million compared to a loss from operations of \$29.9 million in the prior fiscal year. The turn from a loss to profit generally reflected increased demand in the semiconductor industry throughout most of fiscal 2004 and our ongoing efforts to reduce operational expenses.

Equipment operating income increased \$95.6 million from the prior year due primarily to higher sales and gross profit and lower operating costs. Packaging materials operating income increased \$15.1 million (100.5%), also due primarily to

Table of Contents

higher sales and gross profit and lower operating costs. Test interconnect operating loss was \$5.7 million or 20.9% less than the prior year due primarily to higher gross profit. In order to improve the operating results of this business segment, we plan to consolidate test facilities, transfer a greater portion of the test production to our Asian facilities, outsource a greater portion of the test production, and introduce new products. We expect implementation of this plan will continue through 2005 and will result in future period charges and/or restructuring charges. Our loss from corporate and other activities was \$2.5 million higher than the prior year due to recording \$4.4 million of employee incentive compensation expense in fiscal 2004 compared to no incentive compensation in the prior year.

Interest and Charge on Early Extinguishment of Debt. Interest income in fiscal 2004 was \$1.1 million compared to \$940 thousand in the prior fiscal year. The higher interest income in fiscal 2004 was due primarily to higher cash and short-term investments. Interest expense in fiscal 2004 was \$10.5 million compared to \$17.4 million in the prior fiscal year. Interest expense in both fiscal 2004 and 2003 primarily reflects interest on our convertible subordinated notes. The lower interest expense in fiscal 2004 was due to the refinancing of our 4.75% and 5.25% convertible subordinated notes with lower interest 0.5% and 1.0% convertible subordinated notes. We also reduced the total amount of subordinated debt outstanding by \$30 million.

We incurred a cost of \$10.5 million to redeem our 4.75% and 5.25% convertible subordinated notes; \$6.0 million of which was a cash expense associated with the redemption premium and \$4.5 million was due to the write-off of deferred financing expenses associated with the initial issuance of the notes.

Tax expense. Tax expense in fiscal 2004 reflects income tax on income in foreign jurisdictions, alternative minimum tax on U.S. income and certain state income tax. In fiscal 2004, we reversed the portion of our valuation allowance (approximately \$11.2 million) that was equal to our U.S. taxable income, excluding taxable income subject to the U.S. alternative minimum tax. Until we can be reasonably assured that we can utilize our U.S. operating loss carryforwards, our income tax provision will reflect only U.S. alternative minimum tax, certain state tax and foreign taxation. Our tax expense in fiscal 2003 reflects income tax on income in foreign jurisdictions. In fiscal 2003, we established a valuation allowance against tax benefits from the fiscal 2003 losses in the U.S.

On October 22, 2004 the U.S. Government passed the American Jobs Creation Act. The Act provides for certain tax benefits including but not limited to the reinvestment of foreign earnings in the United States. We are currently evaluating the Act and may or may not benefit from such provisions.

Discontinued Operations. In February 1996, we entered into a joint venture agreement with Delco Electronics Corporation (Delco) providing for the formation and management of Flip Chip Technologies, LLC (FCT). FCT was formed to license certain technologies and to provide wafer bumping services on a contract basis. In March 2001, we purchased the remaining interest in the joint venture owned by Delco for \$5.0 million and included FCT in our then existing advanced packaging business segment. In fiscal 2003, our then existing advanced packaging business segment consisted solely of FCT, which was not profitable.

In February 2004, we sold the assets of FCT for approximately \$3.4 million in cash and notes and the agreement by the buyer to satisfy approximately \$5.2 million of our lease liabilities and the assumption of certain other liabilities. The sale included fixed assets, inventories, and intellectual property of our flip chip business. The major classes of FCT assets and liabilities sold included: \$3.6 million in accounts receivable; \$119 thousand in inventory; \$2.5 million in property, plant and equipment; \$119 thousand in other long term assets; \$1.5 million in accounts payable and \$1.0 million in accrued liabilities. We recorded a net loss on the sale of FCT of \$380 thousand. Net sales from FCT in fiscal 2004 were \$9.4 million, and in fiscal 2003 were \$16.4 million. The net loss of our former flip chip business unit comprises our discontinued operations. Included in the fiscal 2003 loss from discontinued operations is an asset impairment charge of \$6.9 million and a goodwill impairment charge of \$5.7 million.

Net income (loss). Our net income in fiscal 2004 was \$55.9 million compared to a net loss of \$76.7 million in fiscal 2003, for the reasons enumerated above.

Table of Contents**Fiscal Years Ended September 30, 2003 and September 30, 2002**

Bookings and Backlog. During the fiscal year ended September 30, 2003 we recorded bookings of \$488.8 million compared to \$444.4 million in fiscal 2002. At September 30, 2003, the backlog of customer orders totaled \$59.9 million, compared to \$49.0 million at September 30, 2002. Since the timing of deliveries may vary and orders are generally subject to cancellation, our backlog as of any date may not be indicative of net sales for any succeeding period.

Sales

Business segment net sales:

	<i>(dollars amounts in thousands)</i>		
	Fiscal year ended September 30,		
	2002	2003	% Change
Equipment	\$ 169,469	\$ 198,447	17.1%
Packaging materials	157,176	174,471	11.0%
Test interconnect	114,698	104,882	-8.6%
Other	222	135	-39.2%
	\$ 441,565	\$ 477,935	8.2%

Sales. Net sales from continuing operations for the year ended September 30, 2003 were \$477.9 million, an increase of 8.2% from \$441.6 million in fiscal 2002.

Equipment sales were 17.1% higher in fiscal 2003 compared to the prior year due primarily to a 46.3% increase in unit sales of automatic ball bonders, which is the dominant product in the equipment business segment. The increase in ball bonder unit sales was partially offset by lower sales of other bonding machines and accessories. The blended average selling price per automatic ball bonder unit (ASP) in fiscal 2003 was flat compared to the prior year. However, ASPs generally go down over time for any particular model. To mitigate this we introduce new models with additional features that enable us to demand a higher selling price. The blended ASP varies with the proportion of newer models sold and with customer mix.

Packaging material sales in fiscal 2003 were 11.0% higher than the prior year. Our capillary unit sales were up 12.2% in fiscal 2003, while our blended capillary ASP was 5.1% below the prior year. Blended capillary ASP is a function of the general decline in unit prices and mix between high and low end capillaries. High end capillaries support advanced packaging applications and have higher ASPs. As in our equipment business, we introduce new capillaries with additional features that enable us to demand a higher selling price. Our wire unit sales (measured in Kft) decreased 9.4% in fiscal 2003 due primarily to a shift in product mix from the prior year. The lower wire unit sales were offset by an average increase of 16.2% in the price of gold, which is reflected in our gold wire ASP. The price of gold has a significant impact on our wire ASP and can fluctuate significantly from period to period. In fiscal 2003, the increase in the price of gold accounted for \$13.9 million of the

sales increase over the prior year.

Our test interconnect sales in fiscal 2003 were 8.6% below the prior year due primarily to lower unit sales in our cantilever product lines, partially offset by higher sales of vertical and package test products. ASPs are not meaningful in the test business due to lack of a standard unit of measure and the large difference in part types sold. As such, ASPs are not a metric used by the Company's management.

The majority of our sales are to customers that are located outside of the United States or have manufacturing facilities outside of the United States. Shipments of our products with ultimate foreign destinations comprised 80% of our total sales in fiscal 2003 compared to 74% in the prior fiscal year. The majority of these foreign sales were to customer locations in the Asia/Pacific region, including Taiwan, Malaysia, Singapore, Korea and Japan. Taiwan accounted for the largest single destination for our product shipments with 20.6% of our shipments in fiscal 2003 compared to 25.1% of our shipments in the prior fiscal year.

Table of Contents**Gross Profit**

(dollars amounts in thousands)
Fiscal year ended September 30,

	2002	%	2003	%
		Sales		Sales
Equipment	\$ 26,504	15.6%	\$ 69,355	34.9%
Packaging materials	39,096	24.9%	41,692	23.9%
Test interconnect	35,012	30.5%	17,026	16.2%
Other	208	93.7%	135	100.0%
	\$ 100,820	22.8%	\$ 128,208	26.8%

Gross profit. Gross profit increased to \$128.2 million in fiscal 2003 from \$100.8 million in fiscal 2002. Included in the results for fiscal 2003 and fiscal 2002 are charges for inventory write-downs of \$5.1 million and \$14.4 million, respectively. The inventory write-down charge in fiscal 2003 was due primarily to excess and obsolete inventory and discontinued products. The charge for inventory write-downs in fiscal 2002 includes three distinct components: \$7.8 million related to the write-down of spare parts inventories; \$5.2 million associated with the discontinuance of our model 7700 dual spindle saw; and \$1.3 million related to excess and obsolete inventory. We provide reserves for equipment inventory and for spare parts and consumables inventory considered to be in excess of 18 months of forecasted future demand. The forecasted demand is based upon internal projections, historical sales volumes, customer order activity and review of consumable inventory levels at our customers' facilities. We communicate forecasts of our future demand to suppliers and adjust commitments to those suppliers accordingly. We review and dispose of our excess and obsolete inventory on a regular basis. In fiscal 2003 we disposed of \$9.6 million of excess and obsolete inventory and in fiscal 2002 we disposed of \$18.6 million of excess and obsolete inventory. The charges for inventory write-downs in fiscal 2003 and fiscal 2002 primarily involve items that are not part of our continuing product offerings and accordingly, should not have a significant impact on our future business or profitability.

Our equipment gross margin increased 19.3 percentage points from the prior year, of which 7.8 percentage points was due to the inventory write-offs discussed above. Excluding these inventory write-offs, equipment gross margin increased by 11.5 percentage points, due to 13.9% reduction in the cost per ball bonder unit produced. Our lower cost per unit reflected the lowering of production costs over a product life cycle along with a change in product mix and our continuing efforts to drive down our cost structure.

Our packaging materials gross margin was adversely affected by the higher price of gold in fiscal 2003 compared to fiscal 2002, which makes up a significant portion of our wire cost of sales. However, the higher capillary unit sales accounted for the increase in gross profit dollars.

Our test interconnect gross margin decreased 14.3 percentage points from fiscal 2002, of which 3.2 percentage points was due to the inventory write-offs discussed above. Lower sales and associated gross profit accounted for the remaining reduction in test gross margin.

Table of Contents**Operating Expenses**

(dollars amounts in thousands)
Fiscal year ended September 30,

	2002	%	2003	%
		Sales		Sales
Selling, general and administrative	\$ 135,054	30.6%	\$ 102,327	21.4%
Research and development, net	51,929	11.8%	38,121	8.0%
Resizing (recovery) costs	18,768	4.3%	(475)	-0.1%
Asset impairment	31,594	7.2%	3,629	0.8%
Goodwill impairment	74,295	16.8%		0.0%
Amortization of intangible assets	9,864	2.2%	9,260	1.9%
Loss on sale of product lines		0.0%	5,257	1.1%
	<u>\$ 321,504</u>	<u>72.8%</u>	<u>\$ 158,119</u>	<u>33.1%</u>

Selling, general and administrative expenses. Selling, general and administrative (referred to as SG&A) expenses decreased \$32.7 million in fiscal 2003 or 24.2% from \$135.1 million in fiscal 2002 to \$102.3 million in fiscal 2003. The lower SG&A expenses in fiscal 2003 resulted primarily from our cost saving initiatives, principally related to reductions in employment levels. Included in the SG&A expense for fiscal 2003 were costs associated with workforce reductions (severance) of \$5.2 million, start-up costs for our new China facility of approximately \$2.0 million and a \$0.7 million charge for the early termination of an information technology services agreement partially offset by the favorable reversal of a \$2.0 million reserve, previously established for potential obligations to U.S. Customs. Included in the fiscal 2002 SG&A expense were workforce reductions (severance) of \$5.0 million and training and start-up costs for our new China facility of \$2.2 million.

The workforce reduction/severance charges identified in the previous paragraph were included in SG&A expense because they were not related to formal and distinct restructuring programs, but rather, they were normal and recurring management of employment levels in response to business conditions and our ongoing effort to reduce our cost structure. Also, if the business conditions had improved, we were prepared to rehire some of these terminated individuals. These charges are in contrast to the formal and distinct resizing programs we established in prior fiscal years.

Research and development . Research and development (R&D) expense in fiscal 2003 decreased \$13.8 million or 26.6% from fiscal 2002. The lower R&D expense in fiscal 2003 was primarily due to the closure of our substrate business unit in the fourth quarter of fiscal 2002 and lower payroll and related expenses due to our ongoing cost reduction efforts.

Resizing: The semiconductor industry has been volatile, with sharp periodic downturns. The industry experienced excess capacity and a severe contraction in demand for semiconductor manufacturing equipment during our fiscal 2001, 2002 and most of 2003. We developed formal resizing plans in response to these changes in our business environment with the intent to align our cost structure with anticipated revenue levels. Accounting for resizing activities requires an evaluation of formally agreed upon and approved plans. We documented and committed to these plans to reduce spending that included facility closings/rationalizations and reductions in workforce. We recorded the expense associated with these plans in the period that it committed to carry-out the plans. Although we make every attempt to consolidate all known resizing activities into one plan, the extreme cycles and rapidly changing forecasting environment places limitations on achieving this objective. The recognition of a resizing event does not necessarily preclude similar but unrelated actions in future periods.

Edgar Filing: KULICKE & SOFFA INDUSTRIES INC - Form POS AM

In fiscal 2003, we reversed \$475 thousand (\$205 thousand in the first half of 2003) of these resizing charges due to the actual severance cost associated with the terminated positions being less than the cost originally estimated. We recorded resizing charges of \$18.8 million in fiscal 2002 and \$4.2 million in fiscal 2001.

In addition to the formal resizing costs identified below, we continued to downsize our operations in fiscal 2002 and 2003. These downsizing efforts resulted in workforce reduction charges of \$5.6 million in fiscal 2003 and \$5.0 million in fiscal 2002. In contrast to the resizing plans discussed above, these workforce reductions were not related to formal or distinct

- 52 -

Table of Contents

restructurings, but rather, the normal and recurring management of employment levels in response to business conditions and our ongoing effort to reduce our cost structure. In addition, during fiscal 2003, if the business conditions were to have improved, we were prepared to rehire some of these terminated individuals. These recurring workforce reduction charges were recorded as SG&A expenses.

A summary of the formal resizing plans initiated in fiscal 2002 and 2001 and acquisition restructuring plans initiated in fiscal 2001 appears below:

	<i>(in thousands)</i>		
Fiscal 2001 and 2002 Resizing Plans and	Severance and		
Acquisition Restructurings	Benefits	Commitments	Total
Provision for resizing plans in fiscal 2001	\$ 4,166	\$	\$ 4,166
Acquisition restructurings	84	1,402	1,486
Payment of obligations in fiscal 2001	(2,101)	(213)	(2,314)
Balance, September 30, 2001	2,149	1,189	3,338
Provision for resizing plans in fiscal 2002:			
Continuing operations	9,486	9,282	18,768
Discontinued operations	893		893
Payment of obligations in fiscal 2002	(7,551)	(1,470)	(9,021)
Balance, September 30, 2002	4,977	9,001	13,978
Change in estimate	(475)		(475)
Payment of obligations in fiscal 2003	(3,590)	(3,211)	(6,801)
Balance, September 30, 2003	\$ 912	\$ 5,790	\$ 6,702

The remaining balance of the resizing costs is included in accrued liabilities.

The individual resizing plans and acquisition restructuring plans initiated in fiscal 2002 and 2001 are identified below:

Charges in Fiscal Year 2002

Fourth Quarter 2002

In January 1999, we acquired the advanced substrate technology of MicroModule Systems, a Cupertino, California company, to enable production of high density substrates. While showing some progress in developing the substrate technology, the business was not profitable and

Edgar Filing: KULICKE & SOFFA INDUSTRIES INC - Form POS AM

would have required additional capital and operating cash to complete development of the technology. In light of the business downturn that was affecting the semiconductor industry at the time, in the fourth quarter of fiscal 2002, we announced that we could not afford further development of the substrate technology and would close our substrate operations. As a result, we recorded a resizing charge of \$8.5 million. The resizing charge included a severance charge of \$1.2 million for the elimination of 48 positions and lease obligations of \$7.3 million. We expected, and achieved, annual payroll related savings of approximately \$4.2 million and annual facility/operating savings of approximately \$3.9 million as a result of this resizing plan. By June 30, 2003, all the positions had been eliminated. The plans have been completed but cash payments for the lease obligations are expected to continue into 2006, or such time as the obligations can be satisfied. In addition to these resizing charges, in the fourth quarter of fiscal 2002, we wrote-off \$7.3 million of fixed assets and \$1.1 million of intangible assets associated with the closure of the substrate operation. This substrate business was included in our then existing Advanced Packaging business segment.

Table of Contents

The resizing costs were included in accrued liabilities. The table below details the activity related to this resizing program during fiscal 2002 and 2003:

Fourth Quarter 2002 Charge	<i>(in thousands)</i>		
	Severance and Benefits	Commitments	Total
Provision for resizing	\$ 1,231	\$ 7,280	\$ 8,511
Balance, September 30, 2002	1,231	7,280	8,511
Change in estimate:			
Change in estimate	(102)		(102)
Payment of obligations	(1,051)	(2,401)	(3,452)
Balance, September 30, 2003	\$ 78	\$ 4,879	\$ 4,957

Third Quarter 2002

As a result of the continuing downturn in the semiconductor industry and our desire to improve the performance of its test business segment, we decided to move towards a 24 hour per-day manufacturing model in its major U.S. wafer test facility, which would provide its customers with faster turn-around time and delivery of orders and economies of scale in manufacturing. As a result, in the third quarter of fiscal 2002, we announced a resizing plan to reduce headcount and consolidate manufacturing in its test business segment. As part of this plan, we moved manufacturing of wafer test products from our facilities in Gilbert, Arizona and Austin, Texas to our facilities in San Jose, California and Dallas, Texas and from our Kaohsiung, Taiwan facility to our Hsin Chu, Taiwan facility. The resizing plan included a severance charge of \$1.6 million for the elimination of 149 positions as a result of the manufacturing consolidation. The resizing plan also included a charge of \$0.5 million associated with the closure of the Kaohsiung, Taiwan facility and an Austin, Texas facility representing costs of non-cancelable lease obligations beyond the facility closure and costs required to restore the production facilities to their original state. We expected, and achieved, annual payroll related savings of approximately \$6.9 million and annual facility/operating savings of approximately \$84 thousand as a result of this resizing plan. All of the positions have been eliminated and both facilities have been closed. The plans have been completed but cash payments for the severance are expected to continue through fiscal 2005 and cash payments for facility and contractual obligations are expected to continue through 2004, or such earlier time as the obligations can be satisfied.

The resizing costs were included in accrued liabilities. The table below details the activity related to this resizing program during fiscal 2002 and 2003.

Third Quarter 2002 Charge	<i>(in thousands)</i>		
	Severance and Benefits	Commitments	Total
Provision for resizing	\$ 1,652	\$ 452	\$ 2,104
Payment of obligations	(547)	(219)	(766)

Edgar Filing: KULICKE & SOFFA INDUSTRIES INC - Form POS AM

Balance, September 30, 2002	1,105	233	1,338
Payment of obligations	(800)	(72)	(872)
Balance, September 30, 2003	\$ 305	\$ 161	\$ 466

Second Quarter 2002

As a result of the continuing downturn in the semiconductor industry and our desire to more efficiently manage our business, in the second quarter of fiscal 2002, we announced a resizing plan comprised of a functional realignment of business management and the consolidation and closure of certain facilities. In connection with the resizing plan, we recorded a charge of \$11.3 million (\$10.4 million in continuing operations and \$0.9 million in discontinued operations), consisting of severance and benefits of \$9.7 million for 372 positions that were to be eliminated as a result of the functional realignment, facility consolidation, the shift of certain manufacturing to China (including our hub blade business) and the move of our microelectronics products to Singapore and a charge of \$1.6 million for the cost of lease commitments beyond the closure date of facilities to be exited as part of the facility consolidation plan.

Table of Contents

In the second quarter of fiscal 2002, we closed five test facilities: two in the United States, one in France, one in Malaysia, and one in Singapore. These operations were absorbed into other company facilities. The resizing charge for the facility consolidation reflects the cost of lease commitments beyond the exit dates that are associated with these closed test facilities.

To reduce our short term cash requirements, we decided, in the fourth quarter of fiscal 2002, not to relocate either our hub blade manufacturing facility from the United States to China or our microelectronics product manufacturing from the United States to Singapore, as previously announced. This change in our facility relocation plan resulted in a reversal of \$1.6 million of the resizing costs recorded in the second quarter of fiscal 2002. As a result, we reduced our expected annual savings from this resizing plan for payroll related expenses by approximately \$4.7 million.

Also in the fourth quarter of fiscal 2002, we reversed \$600 thousand (\$590 thousand in continuing operations and \$10 thousand in discontinued operations) of the severance resizing expenses and in the fourth quarter of fiscal 2003 we reversed \$353 thousand of resizing expenses, previously recorded in the second quarter of fiscal 2002, due to actual severance costs associated with the terminated positions being less than those estimated as a result of employees leaving the Company before they were severed.

As a result of the functional realignment, we terminated employees at all levels of the organization from factory workers to vice presidents. The organizational change shifted management of the Company businesses to functional (i.e. sales, manufacturing, research and development, etc.) areas across product lines rather than by product line. For example, research and development activities for the entire company are now controlled and coordinated by one corporate vice president under the functional organizational structure, rather than separately by each business unit. This structure provides for a more efficient allocation of human and capital resources to achieve corporate R&D initiatives.

We expected annual payroll related savings of approximately \$17.3 million and annual facility/operating savings of approximately \$660 thousand as a result of this resizing plan. As a result of the decision not to relocate either our hub blade manufacturing facility or its microelectronics product manufacturing, we ultimately achieved annual payroll related savings of approximately \$12.7 million. The plans have been completed but cash payments for the severance charges and the facility and contractual obligations are expected to continue into fiscal 2005, or such time as the obligations can be satisfied.

The resizing costs were included in accrued liabilities. The table below details the activity related to this resizing program during fiscal 2002 and 2003.

<u>Second Quarter 2002 Charge</u>	<i>(in thousands)</i>		
	<u>Severance and Benefits</u>	<u>Commitments</u>	<u>Total</u>
Provision for resizing - Continuing operations	\$ 8,830 ⁽¹⁾	\$ 1,550	\$ 10,380
Provision for resizing - Discontinued operations	903		903
Change in estimate - Continuing operations	(2,227)		(2,227)
Change in estimate - Discontinued operations	(10)		(10)
Payment of obligations	(5,367) ⁽¹⁾	(81)	(5,448)
Balance, September 30, 2002	2,129	1,469	3,598
Change in estimate	(353)		(353)

Edgar Filing: KULICKE & SOFFA INDUSTRIES INC - Form POS AM

Payment of obligations	(1,284)	(719)	(2,003)
Balance, September 30, 2003	\$ 492	\$ 750	\$ 1,242

- (1) Includes \$2.6 million non-cash charge for modifications of stock option awards that were granted prior to December 31, 2001 to the employees affected by the resizing plans in accordance with our annual grant of stock options to employees

Table of Contents**Charges in Fiscal Year 2001**

Fourth Quarter 2001

As part of our efforts to more efficiently manage our business and reduce operating costs, we announced in the fourth quarter of fiscal 2001 that we would close our bonding wire facility in the United States and move the production capacity to our bonding wire facility in Singapore. We recorded a resizing charge for severance of \$2.4 million for the elimination of 215 positions, all of which had been terminated at September 30, 2002. We expected, and achieved, annual payroll related savings of approximately \$11.5 million. Also in the fourth quarter of fiscal 2001, we recorded an increase to goodwill of \$0.8 million, in connection with the acquisition of Probe Technology, for additional lease costs associated with the elimination of four duplicate facilities in the United States. The plans have been completed but cash payments for the severance charge were expected to continue through 2004.

The resizing costs were included in accrued liabilities. The table below details the activity related to this resizing program during fiscal 2001, 2002 and 2003.

Fourth Quarter 2001 Charge	<i>(in thousands)</i>		
	Severance and Benefits	Commitments	Total
Provision for resizing	\$ 2,457	\$	\$ 2,457
Acquisition restructuring		840	840
Payment of obligations	(402)		(402)
Balance, September 30, 2001	2,055	840	2,895
Payment of obligations	(1,543)	(840)	(2,383)
Balance, September 30, 2002	512		512
Change in estimate	(20)		(20)
Payment of obligations	(455)		(455)
Balance, September 30, 2003	\$ 37	\$	\$ 37

Second Quarter 2001

As a result of a downturn in the semiconductor industry, in the quarter ended March 31, 2001, we announced a 7.0% reduction in our workforce. As a result, we recorded a resizing charge for severance of \$1.7 million for the elimination of 296 positions across all levels of the organization, all of which were terminated prior to March 31, 2002. We expected, and achieved, annual payroll related savings of approximately \$7 million. In connection with our acquisition of Probe Tech, we also recorded an increase to goodwill for \$0.6 million for severance, lease and other facility charges related to the elimination of four leased Probe Technology facilities in the United States, which were found to be duplicative with the Cerprobe facilities. The plans have been completed and there will be no additional cash payments related to severance and facility obligations

under this program.

Table of Contents

The resizing costs were included in accrued liabilities. The table below details the activity related to this resizing program during fiscal 2001, 2002 and 2003:

<u>Second Quarter 2001 Charge</u>	<i>(in thousands)</i>		
	<u>Severance and Benefits</u>	<u>Commitments</u>	<u>Total</u>
Provision for resizing	\$ 1,709	\$	\$ 1,709
Acquisition restructuring	84	562	646
Payment of obligations	(1,699)	(213)	(1,912)
Balance, September 30, 2001	94	349	443
Payment of obligations	(94)	(330)	(424)
Balance, September 30, 2002		19	19
Payment of obligations		(19)	(19)
Balance, September 30, 2003	\$	\$	\$

Asset impairment. In addition to the workforce resizings and the facility consolidations, over the past two fiscal years we have terminated several of our major initiatives in an effort to more closely align our cost structure with expected revenue levels. As a result, we recorded asset impairment charges of \$3.6 million in fiscal 2003 and \$31.6 million in fiscal 2002. The fiscal 2003 charge included: \$1.7 million associated with the discontinuation of a test product; \$1.2 million due to the reduction in the size of a test facility in Dallas, Texas; and \$730 thousand resulting from the write-down of assets that were sold and assets that became obsolete. The fiscal 2002 charge included: \$16.9 million associated with the cancellation of a company-wide integrated information system; \$8.4 million associated with the closure of the substrates operation; \$3.6 million charge for the write-off of development and license costs of certain engineering and manufacturing software, which had not yet been completed or placed in service and would never be utilized; \$1.4 million associated with a closed wire facility in Taiwan; and \$1.3 million related to leasehold improvements at the leased probe card manufacturing facilities in Malaysia and the United States, which have been closed.

We also recorded an asset impairment charge of \$6.9 million, to write-down assets to their realizable value, in our discontinued operation.

Goodwill impairment. Effective October 1, 2001, we adopted SFAS 142, Goodwill and Other Intangible Assets. The intangible assets that are classified as goodwill and those with indefinite lives are no longer amortized under the provisions of this standard. Intangible assets with determinable lives continue to be amortized over their estimated useful life. We perform our annual impairment test at the end of the fourth quarter of each fiscal year, which coincides with the completion of our annual forecasting process. We also test for impairment between our annual tests if a trigger event occurs that may have the effect of reducing the fair value of a reporting unit below its carrying value. When conducting our goodwill impairment analysis, we calculate our potential impairment charges based on the two-step test identified in SFAS 142 and using the implied fair value of the respective reporting units. We use the present value of future cash flows from the respective reporting units to determine the implied fair value. Our intangible assets other than goodwill are tested for impairment based on undiscounted cash flows, and if impaired, written-down to fair value based on either discounted cash flows or appraised values. Our intangible assets are comprised of customer accounts and complete technology in its test interconnect business segment. We manage and value our complete technology in the aggregate as one asset group.

Edgar Filing: KULICKE & SOFFA INDUSTRIES INC - Form POS AM

In fiscal 2002, we reviewed our business and determined that there are five reporting units to be reviewed for impairment in accordance with the standard the reporting units were: the bonding wire, hub blade, substrate, flip chip and test businesses. The bonding wire and hub blade businesses were included in our packaging materials segment, the substrate business was included in our advanced packaging segment, the test business comprised our test segment and the flip chip business unit is included in discontinued operations. There is no goodwill associated with our equipment segment. Upon adoption of SFAS 142 in the first quarter of fiscal 2002, we completed the required transitional impairment testing of intangible assets, and based upon those analyses, did not identify any impairment charges as a result of adoption of this standard effective October 1, 2001.

Upon adoption of the standard in fiscal 2002, we reclassified \$17.2 million of intangible assets relating to an acquired workforce in the test reporting unit into goodwill and correspondingly reduced goodwill by \$4.9 million of goodwill associated with a deferred tax liability established for timing differences of U.S. income taxes on the workforce

- 57 -

Table of Contents

intangible. Also in fiscal 2002, we reduced goodwill associated with the test reporting unit by \$1.5 million reflecting the settlement of a purchase price dispute with the former owners of Probe Technology and increased goodwill associated with its flip chip reporting unit by \$96 thousand reflecting an increase in the cost to purchase the former joint venture partner's equity share.

In fiscal 2001, 2002 and 2003, the semiconductor industry experienced a severe industry downturn. Due to the prolonged nature of the industry downturn, we continually recalibrated our businesses and projections of future operating activities. We saw an up-tick in our business in the spring of 2002 and at that time believed we were emerging from the effects of an industry downturn. However, this up-tick in business was not sustained and our business turned back down in the second half of fiscal 2002. By the end of our fiscal 2002, our recalibrated forecasts of future cash flows from our test, hub blades and substrate reporting units were substantially lower than in the beginning of that fiscal year, which led to the closing of the substrate business and an associated write-off of all the substrate intangible assets of \$1.1 million and goodwill impairment charges in the test business of \$72.0 million and in our hub blades business of \$2.3 million. Likewise, by the end of fiscal 2003, our forecast of future cash flows from our flip chip business unit were lower than previous forecasts and resulted in goodwill and asset impairment charges of \$5.7 million and the subsequent sale of the assets of this business. We recorded goodwill impairment charges in the period in which our analysis of future business conditions indicated that the reporting unit's fair value, and the implied value of its goodwill, was less than its carrying value.

Due to the amount of goodwill associated with our test reporting unit, we retained a third party valuation firm to assist management in estimating the test reporting unit's fair value at September 30, 2002. The appraisal was based on discounted cash flows of this reporting unit. The estimated fair value was determined using our weighted average cost of capital. The estimated fair value was then corroborated by comparing the implied multiples applicable to the test reporting unit's projected earnings to guideline companies' forward earnings and based on this it was determined that they were within the range of the guideline companies. The fair value of our test reporting unit at September 30, 2003 was determined in the same manner, however, as it was greater than the carrying value of the reporting unit, there was no goodwill impairment.

We also recorded a goodwill impairment charge at September 30, 2002 in our hub blade reporting unit. We calculated the fair value of this reporting unit based on the present value of its projected future cash. The estimated fair value was determined using our weighted average cost of capital. The triggering event for this impairment charge was the recalibrated forecasts, in the fourth quarter of fiscal 2002, when we first determined that the fair value of the hub blade reporting unit was less than its carrying value.

In September 2003, we recorded a goodwill impairment charge at our flip chip business unit. The fair value of this reporting unit was determined using quoted prices from potential purchasers of this reporting unit. The quoted prices were subsequently confirmed upon the sale of the assets of the flip chip reporting unit in February of 2004. The triggering event for this impairment charge was also recalibrated forecasts in the fourth quarter of fiscal 2003, when we first determined that the fair value of our flip chip reporting unit was less than its carrying value.

Amortization of goodwill and intangibles. Amortization expense was \$9.3 million in fiscal 2003 compared to \$9.9 million in fiscal 2002. The lower amortization expense in fiscal 2003 was due to the elimination of amortization expense in fiscal 2003 on acquired technology at our former substrate business that was written-off upon the closure of this business in the fourth quarter of fiscal 2002. The amortization expense in fiscal 2003 is associated with the intangible assets of our test business unit.

Loss on sale of product lines. In the fourth quarter of fiscal 2003, we sold the fixed assets, inventories and intellectual property associated with our sawing and hard material blade product lines for \$1.2 million in cash. We wrote-off \$6.5 million of net assets associated with the transaction. In addition, we sold the assets associated with our polymers business for \$105 thousand. This loss on sale of product lines of \$5.3 million has been reclassified to be included in our operating expenses section of the consolidated statement of operations, from its prior presentation outside of the operating results.

Table of Contents**Income (loss) from Operations**

Income (loss) from operations by segment appears below:

(dollars amounts in thousands)
Fiscal year ended September 30,

	2002	%	2003	%
		Sales		Sales
Equipment	\$ (65,462)	-38.6%	\$ (2,323)	-1.2%
Packaging materials	6,518	4.1%	15,008	8.6%
Test interconnect	(95,065)	-82.9%	(27,192)	-25.9%
Corporate and other	(66,675)	NA	(15,404)	NA
	<u>\$ (220,684)</u>	<u>-50.0%</u>	<u>\$ (29,911)</u>	<u>-6.3%</u>

Our loss from operations in fiscal 2003 was \$29.9 million compared to \$220.7 million in the prior fiscal year. The smaller operating loss in fiscal 2003 compared to fiscal 2002 was due primarily to higher sales and gross profit, lower SG&A and R&D expenses, no resizing expenses, and lower asset and goodwill impairment charges.

Equipment operating loss was reduced from \$65.5 million to \$2.3 million due primarily to higher sales and gross profit and lower operating costs. Packaging materials operating income increased by \$8.5 million or 130.3% due primarily to recording \$5.2 million of assets and goodwill impairment charges in the prior year and higher sales and gross profit in the current year. Test interconnect operating loss was \$67.9 million less than the prior year due primarily to recording \$73.2 million of goodwill and assets impairment charges in the prior year compared to \$3.1 million of assets impairment charges in fiscal 2003. In order to improve the operating results of this business, we plan to consolidate test facilities, transfer a greater portion of the test production to our Asian facilities, outsourcing a greater portion of the test production, and new product introductions. We expect implementation of this plan will continue through 2005 and will result in future period charges and/or restructuring charges. Our loss from corporate and other activities was \$51.3 million less than the prior year due to asset impairment charges of \$25.3 million and operating costs of our former substrate operation recorded in the prior year.

Interest. Interest income in fiscal 2003 was \$940 thousand compared to \$3.8 million in the prior year. The lower interest income was due primarily to lower cash balances to invest coupled with lower interest rates on short-term investments. Interest expense was \$17.4 million in fiscal 2003 compared to \$18.7 million in the prior year. The lower interest expense in fiscal 2003 resulted from the elimination in fiscal 2003 of interest associated with a receivable securitization program, which was cancelled in July of 2002.

Other income and minority interest. Other income of \$2.0 million in fiscal 2002 was associated with the cash settlement of an insurance claim associated with a fire in our bonding tools facility. Other income also includes minority interest of \$10 thousand in fiscal 2002 for the portion of the loss of a foreign test division subsidiary that was owned by a third party. We purchased the third party's interest in fiscal 2002.

Edgar Filing: KULICKE & SOFFA INDUSTRIES INC - Form POS AM

Tax expense. We recognized tax expense of \$7.6 million in fiscal 2003 compared to \$32.6 million in fiscal 2002. The tax expense in fiscal 2003 represents income tax on foreign earnings and reserves for foreign withholding tax on repatriation of certain foreign earnings. In fiscal 2003 we established a valuation allowance of \$12.1 million against our U.S and foreign net operating losses. The tax expense in fiscal 2002 was due primarily to a \$65.3 million charge to establish a valuation allowance against our U.S. net operating loss carryforwards, a \$25.0 million charge to provide for tax expense on repatriation of certain foreign earnings and foreign income taxes of \$7.1 million. These charges were partially offset by a benefit of \$49.5 million from the pretax loss in the U.S.

Discontinued Operations. The net loss of our former Flip Chip business unit comprises our discontinued operations. Included in the fiscal 2003 loss from discontinued operations are an asset impairment charge of \$6.9 million and a goodwill impairment charge of \$5.7 million.

Net loss. Our net loss for fiscal 2003 was \$76.7 million compared to a net loss of \$274.1 million in fiscal 2002, for the reasons enumerated above.

Table of Contents**Quarterly Results of Operations**

The table below shows our quarterly net sales, gross profit and operating income (loss) by quarter for fiscal 2004 and 2003:

	<i>(in thousands)</i>				
	First	Second	Third	Fourth	Total
Fiscal 2004	Quarter	Quarter	Quarter	Quarter	Quarter
Net sales	\$ 153,869	\$ 221,771	\$ 194,628	\$ 147,543	\$ 717,811
Gross profit	47,362	76,534	65,072	42,037	231,005
Income (loss) from operations	12,155	34,409	29,299	8,082	83,945
Fiscal 2003	First	Second	Third	Fourth	Total
Net sales	\$ 107,259	\$ 122,280	\$ 123,782	\$ 124,614	\$ 477,935
Gross profit	28,637	34,231	32,103	33,237	128,208
Loss from operations	(9,696)	(8,079)	(4,105)	(8,031)	(29,911)

LIQUIDITY AND CAPITAL RESOURCES

At September 30, 2004, total cash and investments were \$95.8 million compared to \$73.1 million at September 30, 2003. Cash and investments increased \$22.7 million from September 30, 2003 due primarily to the following:

We generated \$71.3 million from operating activities, despite carrying higher accounts receivable and inventory of \$19.3 million and \$23.4 million, respectively, compared to the end of the prior year. The higher accounts receivable and inventory reflected the sharp drop off in sales activity in the fourth quarter. The inventory increase also included \$11.2 million of gold not included in the prior year;

Our financing activities resulted in lowering our long term debt by \$30 million and reducing our annual cash interest expense by \$13.2 million, from September 30, 2003 to September 30, 2004, by;

Raising \$199.3 million in net proceeds from the issuance of 0.5% convertible subordinated notes;

Raising \$63.2 million in net proceeds from the issuance of 1.0% convertible subordinated notes;

Spending \$178.6 million to redeem all of our 4.75% convertible subordinated notes;

Spending \$127.4 million to redeem all of our 5.25% convertible subordinated notes.

Edgar Filing: KULICKE & SOFFA INDUSTRIES INC - Form POS AM

We spent \$13.4 million on capital expenditures: some of the major projects were: \$1.8 million on cantilever test production capacity; \$1.5 million on advanced bonder development; \$1.5 million on IT systems upgrades; \$1.5 million on tool production capacity; and \$0.8 million on gold wire manufacturing capacity.

We received \$4.2 million from the exercise of stock options; and

We received \$3.4 million from the sale of our Flip Chip business unit.

Our primary need for cash for the next fiscal year will be to provide the working capital necessary to meet our expected production and sales levels and to make the necessary capital expenditures to enhance our production and operating activities. We expect our fiscal 2005 capital expenditure needs to be approximately \$20 million. We financed our working capital needs and capital expenditure needs in fiscal 2004 through internally generated funds from our equipment and packaging materials businesses and expect to continue to generate cash from operating activities in fiscal 2005 to meet our cash needs. We expect to use the excess cash generated from our equipment and packaging materials business to fund the operation of our test business until such time that our test performance improvement plans are complete and our test segment is self-funding.

- 60 -

Table of Contents

Our long term debt at September 30, 2003 and 2004 consisted of the following:

Type	Fiscal Year of Maturity	Conversion Price ⁽¹⁾	Rate	<i>(in thousands)</i> Outstanding Balance at, September 30,	
				2003	2004
Convertible Subordinated Notes	2006	\$ 19.75	5.25%	\$ 125,000	\$
Convertible Subordinated Notes	2007	\$ 22.90	4.75%	175,000	
Convertible Subordinated Notes	2009	\$ 20.33	0.50%		205,000
Convertible Subordinated Notes	2010	\$ 12.84	1.00%		65,000
Other ⁽²⁾				338	5,725
				<u>\$ 300,338</u>	<u>\$ 275,725</u>

(1) Subject to adjustment.

(2) Includes a mortgage of \$5.4 million held by a limited liability company which the Company began consolidating into its financial statements at December 31, 2003 in accordance with FIN 46.

In the quarter ended December 31, 2003, we issued \$205 million of 0.5% Convertible Subordinated Notes in a private placement to qualified institutional investors. The notes mature on November 30, 2008, bear interest at 0.5% per annum and are convertible into common stock of the Company at a conversion price of \$20.33 per share, subject to adjustment for certain events. The notes are general obligations of the Company and are subordinated to all senior debt. The notes rank equally with the Company's 1.0% Convertible Subordinated Notes. There are no financial covenants associated with the notes and there are no restrictions on incurring additional debt or issuing or repurchasing our securities. Interest on the notes is payable on May 30 and November 30 each year. We used the majority of the net proceeds from the issuance of the 0.5% Convertible Subordinated Notes to redeem all of our \$175 million of 4.75% Convertible Subordinated Notes at a redemption price equal to 102.036% of the principal amount of the 4.75% notes. We recorded a charge of \$6.2 million associated with the redemption of these notes, \$2.6 million of which was due to the write-off of unamortized note issuance costs and \$3.6 million due to the redemption premium.

In the quarter ended June 30, 2004, we issued \$65 million of 1.0% Convertible Subordinated Notes in a private placement to qualified institutional investors. The notes mature on June 30, 2010, bear interest at 1.0% per annum and are convertible into common stock of the Company at a conversion price of \$12.84 per share, subject to adjustment for certain events. The conversion rights of these notes may be terminated on or after June 30, 2006 if the closing price of our common stock has exceeded 140% of the conversion price then in effect for at least 20 trading days within a period of 30 consecutive trading days. The notes are general obligations of the Company and are subordinated to all senior debt. The notes rank equally with our 0.5% Convertible Subordinated Notes. There are no financial covenants associated with the 1.0% notes and there are no restrictions on incurring additional debt or issuing or repurchasing our securities. Interest on the notes is payable on June 30 and December 30 each year.

We used the net proceeds from the issuance of the 1.0% Convertible Subordinated Notes along with cash remaining from the issuance of the 0.5% Convertible Subordinated Notes and cash from operations to purchase all of our 5.25% Convertible Subordinated Notes at purchase prices between 101.0% and 102.1% of the principal amount of the 5.25% notes. The Company recorded a charge of \$4.4 million associated with the purchase of these notes, \$2.0 million of which was due to the write-off of unamortized note issuance costs and \$2.4 million due to the purchase premium.

Edgar Filing: KULICKE & SOFFA INDUSTRIES INC - Form POS AM

Under GAAP, certain obligations and commitments are not required to be included in our consolidated balance sheets and statements of operations. These obligations and commitments, while entered into in the normal course of business, may have a material impact on our liquidity. Certain of the following commitments as of September 30, 2004 have not been included in our consolidated balance sheet and statements of operations included in this filing; however, they have been disclosed in the following table in order to provide a more complete picture of our financial position and liquidity. The most significant of these are our operating lease commitments and inventory purchase obligations.

- 61 -

Table of Contents

The following table identifies obligations and contingent payments under various arrangements at September 30, 2004, including those not included in our consolidated balance sheet:

	<i>(in thousands)</i>				
		Amounts due in less than	Amounts due in	Amounts due in	Amounts due in more than
	Total	1 year	2-3 years	4-5 years	5 years
Contractual Obligations:					
Long-term debt	\$ 275,400	\$ 5,400	\$	\$ 205,000	\$ 65,000
Capital Lease obligations	325	41	82	82	120
Operating Lease obligations*	34,077	8,628	9,609	5,221	10,619
Inventory Purchase obligations*	40,127	40,127			
Commercial Commitments:					
Gold supply financing guarantee	11,196	11,196			
Standby Letters of Credit*	3,094	3,094			
Total Contractual Obligations and Commercial Commitments	\$ 364,219	\$ 68,486	\$ 9,691	\$ 210,303	\$ 75,739

* Represents contractual amounts not reflected in the consolidated balance sheet at September 30, 2004.

Long-term debt includes the amounts due under our 0.5% Convertible Subordinated Notes due 2008, 1.0% Convertible Subordinated Notes due 2010 and a mortgage of \$5.4 million held by a limited liability company which the Company began consolidating into its financial statements at December 31, 2003 in accordance with FIN 46. The capital lease obligations principally relate to a building lease. The operating lease obligations represent obligations due under various facility and equipment leases with terms up to fifteen years in duration. Inventory purchase obligations represent outstanding purchase commitments for inventory components ordered in the normal course of business.

To reduce the cost to procure gold, we changed our gold supply financing arrangement in fiscal 2004. As a result, gold for wire fabrication is no longer treated as consignment goods and is now reflected and included in our inventory with a corresponding amount in accounts payable. At September 30, 2004, both our inventory and accounts payable included \$11.2 million of this gold compared to none at September 30, 2003. Although we no longer purchase gold on a consignment basis, our obligation to pay for the gold generally does not arise, and the price we pay for the gold is not fixed, until we price and sell the gold wire to our customers. The guarantee for our gold supply financing arrangement is secured by the assets of our wire manufacturing subsidiary and contains restrictions on that subsidiary's net worth, ratio of total liabilities to net worth, ratio of EBITDA to interest expense and ratio of current assets to current liabilities, all of which we were within compliance.

The standby letters of credit represent obligations of the Company in lieu of security deposits for a facility lease and employee benefit programs.

At September 30, 2004, the fair value of our \$205.0 million 0.5% Convertible Subordinated Notes was \$145.8 million, and the fair value of our \$65.0 million 1.0% Convertible Subordinated Notes was \$47.5 million. The fair values were determined using quoted market prices at the balance sheet date. The fair value of our other assets and liabilities approximates the book value of those assets and liabilities. At September 30, 2004, the Standard & Poor's rating on our 0.5% convertible subordinated notes was CCC+ and our 1.0% convertible subordinated notes were not rated.

We have a non-contributory defined benefit pension plan covering substantially all U.S. employees who were employed on September 30, 1995. The benefits for this plan were based on the employees' years of service and the employees' compensation during the three years before retirement. Our funding policy is consistent with the funding requirements of U.S. Federal employee benefit and tax laws. We contributed approximately \$2.8 million (based on the market price at the

Table of Contents

time of contribution) in Company stock to the Plan in Fiscal 2004 and \$1.0 million in fiscal 2003. In fiscal 2005, we expect to make a contribution of Company common stock of approximately \$1.5 million. Effective December 31, 1995, the benefits under the Company's pension plan were frozen. As a consequence, accrued benefits no longer change as a result of an employee's length of service or compensation.

We believe that our existing cash reserves and anticipated cash flows from operations will be sufficient to meet our liquidity and capital requirements for at least the next 12 months. However, our liquidity is affected by many factors, some based on normal operations of the business and others related to uncertainties of the industry and global economies. We may seek, as we believe appropriate, additional debt or equity financing to provide capital for corporate purposes. We may also seek additional debt or equity financing for the refinancing or redemption of existing debt and/or to fund strategic business opportunities, including possible acquisitions, joint ventures, alliances or other business arrangements which could require substantial capital outlays. The timing and amount of such potential capital requirements cannot be determined at this time and will depend on a number of factors, including demand for our products, semiconductor and semiconductor capital equipment industry conditions, competitive factors, the condition of financial markets and the nature and size of strategic business opportunities which we may elect to pursue.

Table of Contents

CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

- 64 -

Table of Contents

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to changes in interest rates primarily from our investments in certain available-for-sale securities. Our available-for-sale securities consist primarily of fixed income investments (corporate bonds, commercial paper and U.S. Treasury and Agency securities). We continually monitor our exposure to changes in interest rates and credit ratings of issuers with respect to our available-for-sale securities and target an average life to maturity of less than eighteen months. Accordingly, we believe that the effects 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. At September 30, 2004, we had a non-trading investment portfolio of fixed income securities, excluding those classified as cash and cash equivalents, of \$32.2 million (see Note 7 of the Company's Consolidated Financial Statements). If market interest rates were to increase immediately and uniformly by 10% from levels as of September 30, 2004, the fair market value of the portfolio would decline by approximately \$68 thousand.

Table of Contents

GENERAL DESCRIPTION OF SECURITIES

This prospectus, together with the additional information included in any applicable prospectus supplements, contains a summary of the material terms and provisions of our common stock, preferred stock, debt securities, including senior debt securities, senior subordinated debt securities and subordinated debt securities consisting of notes, debentures or other evidence of indebtedness, warrants, and units consisting of two or more classes of these securities.

The securities offered by this prospectus may be offered in amounts, at prices and on terms to be determined at the time of the offering. The aggregate offering price of securities offered by us under this prospectus will not exceed \$250,000,000. These summaries are not meant to be a complete description of each security.

DESCRIPTION OF CAPITAL STOCK

The following is a general description of our capital stock. The terms of our articles of incorporation and bylaws are more detailed than the general information provided below. Therefore, you should carefully consider the actual provisions of those documents.

Authorized Capital Stock

We are authorized to issue a total of 205,000,000 shares of our capital stock, each of which is without par value. Of the authorized amount, 200,000,000 of the shares are common stock and 5,000,000 of the shares are preferred stock.

Our Board of Directors may, without further action by our stockholders, issue a series of preferred stock and fix the rights and preference of those shares, including the dividend rights, dividend rates, conversion rights, exchange rights, voting rights, terms of redemption, redemption price or prices, liquidation and other preferences and priorities and the number of shares constituting any series or the designation of such series. The rights of the holders of common stock will be subject to, and may be adversely affected by, the rights of the holders of any preferred stock issued by us. All of the 5,000,000 authorized shares of preferred stock are currently undesignated.

As of December 31, 2004, there were 51,370,822 shares of common stock issued and outstanding. As of such date, no shares of preferred stock were issued or outstanding.

Common Stock

General. Each share of our common stock has the same rights and privileges. Holders of our common stock do not have any preferences or any preemptive, conversion or exchange rights. All of our outstanding shares of common stock are fully paid and nonassessable. Our common stock is listed on the Nasdaq National Market under the symbol KLIC.

Voting Rights. The holders of our common stock are entitled to vote upon all matters submitted to a vote of our stockholders and are entitled to one vote for each share of common stock held. In the election of directors, the holders of the common stock may multiply the number of votes the shareholder is entitled to cast by the total number of directors to be elected at a meeting of shareholders and cast the whole number of votes for one candidate or distribute them among some or all candidates.

Dividends. Subject to the prior rights and preferences, if any, applicable to shares of preferred stock or any series of preferred stock, or the restrictions set forth in any applicable indentures, the holders of common stock are entitled to participate ratably in dividends, payable in cash, stock or otherwise, as may be declared by our Board of Directors out of any funds legally available for the payment of dividends. Each such distribution shall be payable to holders of record as they appear on our stock transfer books on such record dates as shall be fixed by our Board of Directors.

Table of Contents

Liquidation and Distribution. If we voluntarily or involuntarily liquidate, dissolve or wind-up, or upon any distribution of our assets, the holders of our common stock will be entitled to receive after distribution in full of the preferential amounts, if any, to be distributed to the holders of preferred stock or any series of preferred stock, all of the remaining assets available for distribution equally and ratably in proportion to the number of shares of common stock held by them.

Preferred Stock

General. The rights, preferences, privileges and restrictions of the preferred stock of each series will be fixed by the certificate of designation relating to each particular series. A prospectus supplement relating to each such series will specify the terms of the preferred stock as determined by our board of directors, including the following:

the title and stated value of the preferred stock being offered,

the number of shares of preferred stock being offered, their liquidation preference per share, if any, and their purchase price;

the dividend rate(s), period(s) and payment date(s) or method(s) of calculating the payment date(s) applicable to the preferred stock being offered;

whether dividends shall be cumulative or non-cumulative;

the provisions for redemption, if applicable, of the preferred stock being offered;

any listing of the preferred stock being offered on any securities exchange or market;

voting rights, if any, of the preferred stock being offered;

the relative ranking and preference of the series as to dividend rights and rights upon our dissolution or upon any distribution of our assets;

any limitations on issuance of any series of our preferred stock ranking senior to or on parity with that particular series of our preferred stock as to dividend rights and rights upon our dissolution or upon any distribution of our assets; and

any other specific terms, preferences, priorities, rights, limitations or restrictions of the preferred stock being offered.

The description of the preferred stock set forth above and in any description of the terms of a particular series of preferred stock in the related prospectus supplement will not be complete. You should refer to the applicable certificate of designation for such series of preferred stock for complete information with respect to such preferred stock. The prospectus supplement will also contain a description of certain United States federal income tax consequences relating to the preferred stock.

Edgar Filing: KULICKE & SOFFA INDUSTRIES INC - Form POS AM

Although it has no present intention to do so, our Board of Directors, without stockholder approval, may issue preferred stock with voting and conversion rights that could adversely affect the voting power of the holders of common stock. If we issue preferred stock, it may have the effect of delaying, deferring or preventing a change in control.

Voting Rights. Holders of preferred stock will have voting rights as indicated in the applicable prospectus supplement.

Dividends. Holders of the preferred stock of each series will be entitled to receive, when, as and if declared by our Board of Directors, out of our funds legally available for payment to stockholders, dividends at such rates and on such dates as will be set forth in the applicable prospectus supplement. Each such distribution shall be payable to holders of record as they appear on our stock transfer books on such record dates as shall be fixed by our Board of Directors.

Liquidation and Distribution. If we voluntarily or involuntarily liquidate, dissolve or wind-up, or upon any distribution of our assets, the holders of our preferred stock will have the rights as stated in the applicable prospectus supplement.

Redemption. The terms and conditions, if any, upon which the preferred stock will be subject to mandatory redemption or redemption at our option, either in whole or in part, will be described in the applicable prospectus supplement.

Table of Contents

Certain Charter and Bylaws Provisions

Some sections of our articles of incorporation and bylaws and provisions of Pennsylvania law may discourage certain transactions involving a change in control of the Company.

Our articles of incorporation and bylaws contain provisions that (i) classify the board of directors into four classes, with one class being elected each year, (ii) permit the board to issue blank check preferred stock without shareholder approval, and (iii) prohibit us from engaging in certain business combinations with a holder of 20% or more of our shares without super-majority board or shareholder approval. Further, under the Pennsylvania Business Corporation Law, because our bylaws provide for a classified board of directors, shareholders may only remove directors for cause.

Kulicke and Soffa has opted out of several provisions of the Pennsylvania Business Corporation Law that could have the effect of delaying or interfering with a proposed change of control, but is also subject to other provisions of that law which could have those effects. Our directors are subject to a provision of the Pennsylvania Business Corporation Law that permits them to consider the interests of constituencies other than the shareholders when deciding what will be in the best interests of the Company. In addition, we are subject to two statutory provisions that are similar to the last provision of our articles of incorporation described above because the statutory provisions impose certain price and other requirements, and special approvals before a holder of 20% or more of our shares may engage in certain transactions.

Transfer Agent and Registrar

American Stock Transfer and Trust Company currently is the transfer agent and registrar for our common stock, with offices in New York, New York. The transfer agent and registrar for any shares of preferred stock we issue will be set forth in the applicable prospectus supplement.

DESCRIPTION OF DEBT SECURITIES

The following is a general description of the debt securities which we may issue from time to time. The particular terms relating to each debt security will be set forth in a prospectus supplement.

The debt securities will be our direct obligations. The senior debt securities will rank equally with all of our other senior and unsubordinated debt. The senior subordinated debt securities will have a junior position to all of our senior debt. The subordinated debt securities will have a junior position to all of our senior debt and all of our senior subordinated debt. The senior debt securities will be issued under a senior debt indenture, the senior subordinated debt securities will be issued under a senior subordinated debt indenture, and the subordinated debt securities will be issued under a subordinated debt indenture. The indentures will be qualified under the Trust Indenture Act of 1939.

Each series of the debt securities will be issued under one of three indentures between Kulicke and Soffa and LaSalle Bank National Association, as trustee.

We have summarized below the material provisions of the indentures. The summary is not complete and is subject in all respects to the provisions of, and is qualified in its entirety by reference to, the forms of indentures, which are filed as exhibits to the registration statement. You should read the indentures for provisions that may be important to you.

Terms Applicable to All Debt Securities

No Limit on Debt Amounts. The indentures do not limit the amount of debt which can be issued under the indentures. These amounts are set from time to time by our board of directors.

Prospectus Supplements. The applicable prospectus supplement will summarize the specific terms for the debt securities and the related offering including, with respect to each series of debt securities, some or all of the following:

title and form of the securities;

offering price;

any limit on the amount that may be issued.

Table of Contents

maturity date(s);

interest rate or the method of computing the interest rate;

dates on which interest will accrue, or how the dates will be determined, the interest payment dates and any related record dates;

the place or places where debt securities may be surrendered for registration of transfer or for exchange, where notices and demands to or upon us in respect of the debt securities and the indentures may be served and where notices to holders will be published;

terms and conditions on which the debt securities may be redeemed, in whole or in part, at our option;

date(s), if any, on which, and the price(s) at which we are obligated to redeem, or at the holder's option to purchase, in whole or in part, the debt securities and related terms and provisions;

details of any required sinking fund payments;

the currency or currencies in which the debt securities will be denominated or payable, if other than U.S. dollars;

any index, formula or other method by which payments on the debt securities will be determined, and any special voting or defeasance provisions in connection with a determination, if the amount of payments are to be determined with reference to an index, formula or other method;

the persons to whom payments of interest will be made;

any provisions granting special rights to holders when a specified event occurs;

any changes to or additional events of defaults or covenants;

any special tax implications of the debt securities; including under what circumstances, if any, and with what procedures and documentation we will pay additional amounts on the debt securities held by a non-U.S. person in respect of taxes, assessments or similar charges withheld or deducted and, if so, the terms related to any option we will have to redeem those debt securities rather than pay those additional amounts;

whether or not the debt securities will be issued in global form and who the depository will be;

any restrictions on the registration, transfer or exchange of the debt securities;

terms, if any, on which a series of debt securities may be convertible into or exchangeable for our common stock, preferred stock or other debt securities, including provisions as to whether conversion or exchange is mandatory, at the option of the holder or at our option;

Edgar Filing: KULICKE & SOFFA INDUSTRIES INC - Form POS AM

if the debt securities are convertible or exchangeable, the events or circumstances which will result in adjustments to the conversion or exchange price and the formulae for determining the adjusted price;

whether the debt securities are secured or unsecured, and if secured, the amount and form of the security and related terms;

subordination terms of any senior subordinated debt securities and subordinated debt securities; and

any other terms that are not inconsistent with the indenture applicable to a series of debt securities, including any terms which may be required by or advisable under United States laws or regulations or advisable (as determined by us) in connection with the marketing of that series of debt securities.

Unless otherwise provided in an applicable indenture relating to debt securities, the debt securities will be issued only in fully registered form, without coupons, in denominations of \$1,000 or any integral multiple thereof. No service charge will be made for any transfer or exchange of the debt securities, but we may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection with a transfer or exchange, other than exchanges not involving any transfer, like the issuance of definitive securities in replacement of temporary securities or the issuance of new securities upon surrender of a security that is redeemed or purchased in part.

A series of debt securities may be issued under the relevant indenture as original issue discount securities, which are securities that are offered and sold at a substantial discount from their stated principal amount. In addition, debt securities offered and sold at their stated principal amount may under some circumstances, pursuant to

Table of Contents

applicable Treasury Regulations, be treated as issued at an original issue discount for federal income tax purposes. Federal income tax consequences and other special considerations applicable to any such original issue discount securities (or other debt securities treated as issued at an original issue discount) will be described in the prospectus supplement relating to those securities.

Covenants. We will agree in the indentures to:

pay the principal, interest and any premium on the debt securities when due;

maintain an office or agency in New York City, where debt securities may be surrendered for registration of transfer or for exchange and where notices and demands to or upon us in respect of the debt securities and the relevant indenture(s) may be served;

prepare and file or deliver certain reports, as more fully specified in the relevant indenture, with the trustee under the relevant indenture, the SEC, and/or registered holders of debt securities, as the case may be;

deliver to the trustee under the relevant indenture, as more fully specified in that indenture, officers' certificates relating to our compliance under the relevant indenture and the occurrence of any default or event of default under that indenture;

file with the trustee under the relevant indenture and the SEC, in accordance with, and as may be required by, the rules and regulations prescribed from time to time by the SEC, the additional information, documents and reports with respect to compliance by the Company with the conditions and covenants provided for in the relevant indenture;

unless our board of directors determines that it is no longer desirable in the conduct of our business and our significant subsidiaries, taken as a whole, and that there will be no adverse impact in any material respect to the holders of debt securities, subject to those exceptions as more fully specified in the relevant indenture, do or cause to be done all things necessary to preserve and keep in full force and effect:

our corporate existence, and the corporate, partnership or other existence of each of our significant subsidiaries, in accordance with their respective organizational documents;

the rights, licenses and franchises of us and certain of our subsidiaries; and

not at any time seek application of any applicable stay, extension or usury law that may affect the covenants or the performance under the indentures.

Consolidation, Merger and Sale of Assets. We will not consolidate with or merge into any other corporation or transfer all or substantially all of our assets unless:

we are the surviving corporation or the successor or surviving entity is organized or existing under the laws of the United States of America, any state thereof or the District of Columbia;

Edgar Filing: KULICKE & SOFFA INDUSTRIES INC - Form POS AM

the successor or surviving entity assumes all of our obligations under the debt securities and the indentures pursuant to supplemental indentures in forms reasonably satisfactory to the trustee(s) under the relevant indentures; and

immediately after we consolidate or merge, no event of default and no event which, after notice or lapse of time, or both, would become an event of default, will have happened and be continuing.

Upon any consolidation, merger or transfer, the successor will be substituted for us under the indenture and we will be relieved of all obligations and covenants under the indenture and the debt securities, but we will not be relieved of the obligation to pay the principal of and interest on the debt securities, except in the case of a sale of all of our assets that meets the requirements stated in the immediately preceding paragraph.

Satisfaction and Discharge. Upon our request, the relevant indenture will no longer be effective with respect to any series for almost all purposes if either:

all outstanding securities of that series have been delivered to the trustee for cancellation and we have paid all sums payable in respect of that series; or

- 70 -

Table of Contents

the only securities which are still outstanding have, or within one year will, become due and payable or are to be called for redemption, we have deposited with the trustee funds which are sufficient to make all future payments, no default or event of default will have occurred and be continuing on the date of that deposit and that deposit will not result in a breach of any other instrument by which we are bound, we have paid all other sums payable in respect of that series, and we have delivered to the trustee a certificate and opinion of counsel that all conditions precedent to satisfaction and discharge have been fulfilled.

Legal Defeasance and Covenant Defeasance. Under each indenture, we may elect with respect to a series of debt securities at our option and subject to the satisfaction of the conditions described below, either:

to be deemed to have paid and discharged the entire indebtedness represented by the outstanding debt securities of the applicable series and to have satisfied all of our other obligations under the debt securities of the applicable series and under the provisions of the relevant indenture, which we refer to as legal defeasance; or

to be released from some of our obligations under the relevant indenture, which we refer to as covenant defeasance.

We can exercise legal or covenant defeasance if we put in place the following arrangements:

we must irrevocably deposit with the applicable indenture trustee (or another trustee meeting certain eligibility requirements and agreeing to be bound by the applicable provisions of the relevant indenture), in trust, for the benefit of the holders of the applicable series of debt securities:

cash in United States dollars,

non-callable and non-redeemable direct obligations of the United States of America or of an agency or instrumentality controlled or supervised by the United States of America, in each instance, the payment of which is unconditionally guaranteed as a full faith and credit obligation of the United States of America; or

a combination of the foregoing,

sufficient, in the opinion of a nationally recognized firm of independent public accountants, to pay the principal of, interest and premium, if any, on the outstanding debt securities of the applicable series on their stated maturity or applicable redemption date, as the case may be, and any mandatory sinking fund payments applicable to that particular series of the debt securities on the day on which the payments are due;

we must deliver to the trustee an opinion of counsel confirming that the holders of the outstanding securities of the applicable series will not recognize income, gain or loss for federal income tax purposes as a result of the defeasance;

no default or event of default shall have occurred and be continuing on the date of the deposit of the amounts to be held in trust for the benefit of the holders (other than a default or event of default resulting from the borrowing of funds to be applied to the deposit) or in the case of any insolvency-related defaults, at any time in the period ending on the 91st day after the date of the deposit (or greater period of time in which any such deposit of trust funds may remain subject to bankruptcy or insolvency laws which apply to the deposit by us); and

Edgar Filing: KULICKE & SOFFA INDUSTRIES INC - Form POS AM

we must deliver to the trustee an officers certificate and an opinion of counsel, each stating that all conditions precedent provided for or relating to legal defeasance or covenant defeasance, as the case may be, have been complied with.

After satisfying the conditions for legal defeasance, the applicable debt securities will be deemed outstanding only for limited purposes as more fully set forth in the relevant indenture. After legal defeasance, the holders of outstanding debt securities will have to rely solely on the deposits we make to the trust for repayment on the debt securities.

- 71 -

Table of Contents

After satisfying the conditions for covenant defeasance, the debt securities of the applicable series will be deemed not outstanding for the purposes of the covenants from which we have been released, but will continue to be deemed outstanding for all other purposes under the relevant indenture.

The applicable prospectus supplement may further describe additional provisions, if any, permitting legal defeasance or covenant defeasance, including any modifications to the provisions described above, with respect to the debt securities of or within a particular series.

Information Concerning the Trustee. The prospectus supplement with respect to particular debt securities will describe any relationship that we may have with the trustee for the debt securities offered. We may also maintain bank accounts, borrow money and have other customary banking or investment banking relationships with the trustee, or its affiliates, in the ordinary course of business.

Form, Exchange, Transfer. Unless otherwise specified in the prospectus supplement, debt securities will be issued in registered form without coupons. They may also be issued in global form with accompanying book-entry procedures as outlined below.

A holder of debt securities of any series can exchange the debt securities for other debt securities of the same series, in any authorized denomination and with the same terms and aggregate principal amount. They are transferable at the corporate trust office of the trustee or at any transfer agent designated by us for that purpose. No charge will be made for any such exchange or transfer except for any tax or governmental charge related to such exchange or transfer, other than exchanges not involving any transfer such as the issuance of definitive securities in replacement of temporary securities or the issuance of new securities upon surrender of a security that is redeemed or purchased in part.

Global Securities. The registered debt securities may be issued in the form of one or more fully registered global securities that will be deposited with and registered in the name of a depositary or with a nominee for a depositary identified in the prospectus supplement.

The specific terms of the depositary arrangement with respect to any debt securities to be represented by a registered global security will be described in the prospectus supplement.

Ownership of beneficial interests in a registered global security will be limited to persons that have accounts with the depositary for such registered global security (participants) or persons that may hold interests through participants. Upon the issuance of a registered global security, the depositary will credit, on its book-entry registration and transfer system, the participants accounts with the principal amounts of the debt securities represented by the registered global security beneficially owned by such participants. Ownership of beneficial interests in such registered global security will be shown on, and the transfer of such ownership interests will be effected, only through records maintained by the depositary for such registered global security or on the records of participants for interests of persons holding through participants.

So long as the depositary for a registered global security, or its nominee, is the registered owner of a registered global security, the depositary or the nominee will be considered the sole owner or holder of the debt securities represented by the registered global security for all purposes. Except as set forth below, owners of beneficial interests in a registered global security will not:

Edgar Filing: KULICKE & SOFFA INDUSTRIES INC - Form POS AM

be entitled to have the debt securities represented by such registered global security registered in their names;

receive or be entitled to receive physical delivery of such debt securities in definitive forms; and

be considered the owners or holders of the debt securities.

- 72 -

Table of Contents

Accordingly, each person owning a beneficial interest in a registered global security must rely on the procedures of the depositary for such registered global security and, if such person is not a participant, on the procedures of the participant through which such person owns its interest, to exercise any rights of a holder under the applicable indenture. We understand that under existing industry practices, if we request any action of holders, or if an owner of a beneficial interest in a registered global security desires to take any action which a holder is entitled to take under the applicable indenture, the depositary would authorize the participants holding the relevant beneficial interests to take such action, and such participants would authorize beneficial owners owning through such participants to take such action.

Principal, premium, if any, and interest payments on debt securities represented by a registered global security registered in the name of a depositary or its nominee will be made to such depositary or its nominee, as the case may be, as the registered owner of such registered global security. Neither we nor the trustee will have any responsibility or liability for any aspect of the records relating to or payment made on account of beneficial ownership interests in such registered global security.

We expect that the depositary for any debt securities represented by a registered global security, upon receipt of any payment of principal, premium or interest will immediately credit participants' accounts with payments in amounts proportionate to their respective beneficial interests in such registered global security as shown on the records of such depositary. We also expect that payments by participants to owners of beneficial interest in such a registered global security held by the participants will be governed by standing customer instructions and customary practices, as is now the case with securities held for the accounts of customers in bearer form or registered in street name.

We may at any time determine not to have any of the debt securities of a series represented by one or more registered global securities and, in such event, will issue debt securities of such series in definitive form in exchange for all of the registered global security or securities representing such debt securities. Any debt securities issued in definitive form in exchange for a registered global security will be registered in such name or names as the depositary shall instruct the relevant trustee. We expect that such instructions will be based upon directions received by the depositary from participants with respect to ownership of beneficial interests in such registered global security.

If provided in a prospectus supplement relating to a series of debt securities, the debt securities of that series may also be issued in the form of one or more global securities that will be deposited with a common depositary identified in the prospectus supplement. The specific terms and procedures, including the specific terms of the depositary arrangement, with respect to any portion of a series of debt securities to be represented by a global security will be described in the prospectus supplement.

Particular Terms of the Senior Debt Securities

Ranking of Senior Debt Securities. The senior debt securities will constitute part of our senior debt and rank equally with all our other senior and unsecured debt, except that it will be senior to our senior subordinated debt and subordinated debt.

Events of Default. The following are events of default under a series of senior debt securities:

we fail to pay the principal, any premium, if any, or any sinking fund payment, on any senior debt securities of that series when due;

Edgar Filing: KULICKE & SOFFA INDUSTRIES INC - Form POS AM

we fail to pay interest on any senior debt securities of that series within 30 days following the due date;

we fail to observe or perform any other covenant, representation, warranty or other agreement in the senior indenture applicable to that series and that failure continues for 60 days after we receive notice to comply from the trustee or holders of at least 25% in aggregate principal amount of the

- 73 -

Table of Contents

outstanding senior debt securities of all series affected by that failure, treating all those series as a single class;

certain events of bankruptcy or insolvency occur, whether voluntary or not.

The prospectus supplement for a particular series may describe additional or different events of default that apply to that series. An event of default with respect to one series of senior debt securities does not necessarily constitute an event of default with respect to any other series of senior debt securities.

If a default or an event of default occurs and is continuing, and if a responsible officer of the trustee under the indenture has actual knowledge thereof, the trustee will mail to the holders of senior debt securities of the affected series a notice to that effect within 90 days after it occurs. Except in the case of a default in the payment of principal or interest, the trustee under the senior indenture may withhold notice if and so long as a committee of the trustee's responsible officers in good faith determines that withholding the notice is in the interests of the holders.

If an event of default with respect to one or more series of senior debt securities occurs and is continuing, the trustee or the holders of at least 25% in aggregate principal amount of the then outstanding senior debt securities of all series with respect to which the event of default occurs and is continuing, treating all those series as a single class, may declare the principal of, premium, if any, and accrued and unpaid interest of all the senior debt securities of those series to be immediately due and payable. The holders of a majority in aggregate principal amount of the then outstanding senior debt securities of all series covered by such declaration may annul or rescind the declaration.

The senior indenture entitles the trustee to be indemnified by the holders before proceeding to exercise any right or power at the request of any of the holders.

The holders of a majority in principal amount of the outstanding senior debt securities of all series with respect to which an event of default occurs and is continuing, treating all those series as a single class, may direct the time, method and place of conducting any proceeding for any remedy available to the trustee or exercising any trust power conferred on it, except that:

the direction cannot conflict with any rule or the indenture;

the trustee may take any other action deemed proper by the trustee which is not inconsistent with the direction; and

the trustee need not take any action which might involve it in personal liability or be unduly prejudicial to the holders of the senior debt securities not joining in the action.

A holder may pursue a remedy directly under the indenture or the series of senior debt securities, but before doing so, the following must occur:

the holder must give to the trustee written notice that an event of default has occurred and is continuing;

Edgar Filing: KULICKE & SOFFA INDUSTRIES INC - Form POS AM

the holders of at least 25% in principal amount of the then outstanding senior debt securities of all affected series, treating all those series as a single class, must make a written request to the trustee to pursue the remedy;

the holder, or holders, must offer and, if requested, provide to the trustee an indemnity satisfactory to the trustee against any loss, liability or expense from the taking of the action;

the trustee does not comply with the request within 60 days after receipt of the request and offer of indemnity; and

during the 60 day period, the holders of a majority in principal amount of the then outstanding senior debt securities of all those series, treating all those series as a single class, do not give the trustee a direction inconsistent with the written request.

- 74 -

Table of Contents

However, holders have an absolute right to receipt of principal, premium, if any, and interest on or after the respective due dates and to institute suit for the enforcement of those payments. The right of a holder of senior debt securities to bring suit for the enforcement of any payments of principal, premium, if any, and interest on senior debt securities on or after the respective due dates may not be impaired or affected without the consent of that holder.

The holders of a majority in principal amount of the senior debt securities then outstanding of all affected series, treating all such series as a single class, may by notice to the trustee on behalf of all holders of the senior debt securities of such series waive any past defaults, except:

a continuing default in payment of the principal of, premium, if any, or interest on, or any sinking fund payment on, senior debt securities of the series; and

a continuing default in respect of a covenant or provision of the indenture which cannot be amended or modified without the consent of each holder of senior debt securities affected.

We will periodically file statements with the trustees regarding our compliance with covenants in the senior indenture.

Modifications and Amendments. Except as provided below, or more fully specified in the senior indenture, the senior indenture may be amended or supplemented by us and the trustee with the consent of holders of a majority in principal amount of all series of senior debt securities affected by the amendment or supplement, treating all such series as a single class. In addition, the record holders of a majority in principal amount of the outstanding senior debt securities of all series affected by the waiver, treating all such series as a single class, may, with respect to those series, waive defaults under, or compliance with, the provisions of the senior indenture. However, some amendments or waivers require the consent of each holder of any senior debt security affected. Without the consent of each holder, an amendment or waiver may not:

reduce the principal amount of the senior debt securities of any series whose holders must consent to an amendment, supplement or waiver;

reduce the principal or change the fixed maturity of the principal of, premium, if any, or mandatory sinking fund obligation, if any, of any senior debt securities of any series or alter the provisions with respect to the redemption of the senior debt securities;

reduce the rate, or change the time for payment, of interest, including default interest, on any senior debt security of any series;

waive a default or event of default in the payment of principal of, or interest or premium on, the senior debt securities of any series, except a rescission of acceleration of the senior debt securities by the holders of a majority in aggregate principal amount of the senior debt securities of any series and a waiver of the payment default that resulted from that acceleration;

make any senior debt security of any series payable in currency other than that stated in the senior debt securities of that series;

make any change in the provisions of the senior indenture relating to waivers of past defaults or the rights of the holders of senior debt securities to receive payments of principal of or interest or premium on the senior debt securities;

Edgar Filing: KULICKE & SOFFA INDUSTRIES INC - Form POS AM

waive a redemption payment with respect to any senior debt security;

make any change in the right of any holders of senior debt securities regarding waivers of defaults or impair or affect the right of any holder of a senior debt security of any series to receive payment of principal, premium, if any, and interest on that security on or after the due date expressed in that security or to bring suit for the enforcement of any payment on or after the due date; or

make any change in the above amendment and waiver provisions.

We and the trustee under the senior indenture may amend or supplement the senior indenture or the senior debt securities issued thereunder without the consent of any holder:

to evidence the succession of another person to us, or successive successions, and the assumption by the successors of our covenants, agreements and obligations under the indenture;

- 75 -

Table of Contents

to add other covenants, restrictions or conditions for the protection of the holders of all or any series of senior debt securities;

to add events of default;

to provide for the issuance of senior debt securities in coupon form and to provide for exchangeability of those senior debt securities under the indenture in fully registered form;

to provide for the issuance of and to establish the form, terms and conditions of senior debt securities of any series;

to evidence and provide for the acceptance of appointment by a successor trustee and to add or change any of the provisions of the indenture necessary to provide for or facilitate the administration of the trusts under the indenture by more than one trustee;

to cure any ambiguity, or to correct or supplement any provision in the indenture which may be defective or inconsistent with any other provision contained in the indenture or in any supplemental indenture, or to make any other provisions with respect to matters or questions arising under that indenture, so long as the interests of holders of senior debt securities of any series are not adversely affected in any material respect under that indenture; or

to make any change that does not adversely affect the rights of any holder.

Particular Terms of the Senior Subordinated Debt Securities

Ranking of Senior Subordinated Debt Securities. The senior subordinated debt securities will rank senior to any subordinated debt securities and will be subordinated and junior in right of payment to any senior debt securities and certain other indebtedness of Kulicke & Soffa to the extent set forth in the applicable indenture. All series of the senior subordinated debt securities will rank equally with each other.

Subordination. Unless the prospectus supplement indicates otherwise, the following provisions will apply to the senior subordinated debt securities. Our obligations under the senior subordinated debt securities will be subordinated in right of payment to our obligations under our senior debt. For this purpose, senior debt generally includes any indebtedness that does not expressly provide that it is on a parity with or subordinated in right of payment to the senior subordinated debt securities. Specifically, senior debt includes obligations under any credit facility with banks or other institutional lenders and obligations under the senior debt securities described in this prospectus. Senior debt will not include:

any liability for federal, state, local or other taxes;

any indebtedness to any of our subsidiaries or other affiliates;

any trade payables;

any indebtedness that we may incur in violation of the senior subordinated indenture; or

obligations under the subordinated debt securities.

If we distribute our assets to creditors upon any dissolution, winding-up, liquidation or reorganization or in bankruptcy, insolvency, receivership or similar proceedings, we must first pay all amounts due or to become due on all senior debt before we pay the principal of, or any premium or interest on, the senior subordinated debt securities.

We may not make any payment on the senior subordinated debt securities if a default in the payment of the principal, premium, if any, interest or other obligations, including a default under any repurchase or redemption obligation in respect of designated senior debt, occurs and continues beyond any applicable grace period. We may not make any payment on the senior subordinated debt securities if any other default occurs and continues with respect to designated senior debt that permits holders of the designated senior debt to accelerate its maturity and the trustee receives a notice of default from us, a holder of designated senior debt or other person permitted to give notice. We may not resume payments on the senior subordinated debt securities until the defaults are cured or specified time periods pass, unless the maturity of the senior debt is actually accelerated.

Table of Contents

The term **designated senior debt** means our obligations under any particular senior debt if the amount of that senior debt is at least the amount specified in the applicable prospectus supplement and the debt instrument expressly provides that the senior debt will be designated senior debt with respect to the senior subordinated debt securities.

We expect that the terms of some of our senior debt will provide that an event of default under the senior subordinated debt securities or an acceleration of their maturity will constitute an event of default under the senior debt. In that case, if the maturity of the senior subordinated debt securities is accelerated because of an event of default, we may not make any payment on the senior subordinated debt securities until we have paid all senior debt or the acceleration has been rescinded. If the payment of the senior subordinated debt securities is accelerated because of an event of default, we must promptly notify the holders of senior debt of the acceleration.

If we experience a bankruptcy, dissolution or reorganization, holders of senior debt may receive more, ratably, and holders of the senior subordinated debt securities may receive less, ratably, than our other creditors.

The indenture for senior subordinated debt securities may not limit our ability to incur additional senior debt.

The subordination provisions may not be amended in a manner adverse to the holders of the senior subordinated debt securities without the consent of the holders of at least 75% of the aggregate principal amount of senior subordinated debt securities then outstanding affected by the amendment, voting as a single class.

Events of Default. The following are events of default under a series of senior subordinated debt securities:

we fail to pay the principal, any premium, if any, or any sinking fund payment, on any senior subordinated debt securities of that series when due;

we fail to pay interest on any senior subordinated debt securities of that series within 30 days following the due date;

we fail to observe or perform any other covenant, representation, warranty or other agreement in the senior subordinated indenture applicable to that series and that failure continues for 60 days after we receive notice to comply from the trustee or holders of at least 25% in aggregate principal amount of the outstanding senior subordinated debt securities of all series affected by that failure, treating all those series as a single class;

certain events of bankruptcy or insolvency occur, whether voluntary or not.

The prospectus supplement for a particular series may describe additional or different events of default that apply to that series. An event of default with respect to one series of senior subordinated debt securities does not necessarily constitute an event of default with respect to any other series of senior subordinated debt securities.

Edgar Filing: KULICKE & SOFFA INDUSTRIES INC - Form POS AM

If a default or an event of default occurs and is continuing, and if a responsible officer of the trustee under the indenture has actual knowledge thereof, the trustee will mail to the holders of senior subordinated debt securities of the affected series a notice to that effect within 90 days after it occurs. Except in the case of a default in the payment of principal or interest, the trustee under the senior subordinated indenture may withhold notice if and so long as a committee of the trustee's responsible officers in good faith determines that withholding the notice is in the interests of the holders.

If an event of default with respect to one or more series of senior subordinated debt securities occurs and is continuing, the trustee or the holders of at least 25% in aggregate principal amount of the then outstanding senior subordinated debt securities of all series with respect to which the event of default occurs and is continuing, treating all those series as a single class, may declare the principal of, premium, if any, and accrued and unpaid interest

- 77 -

Table of Contents

(subject to applicable subordination provisions in the senior subordinated indenture) of all the senior subordinated debt securities of those series to be immediately due and payable. The holders of a majority in aggregate principal amount of the then outstanding senior subordinated debt securities of all series covered by such declaration may annul and rescind the declaration.

The senior subordinated indenture entitles the trustee to be indemnified by the holders before proceeding to exercise any right or power at the request of any of the holders.

The holders of a majority in principal amount of the outstanding senior subordinated debt securities of all series with respect to which an event of default occurs and is continuing, treating all those series as a single class, may direct the time, method and place of conducting any proceeding for any remedy available to the trustee or exercising any trust power conferred on it, expect that:

the direction cannot conflict with any rule or the indenture;

the trustee may take any other action deemed proper by the trustee which is not inconsistent with the direction; and

the trustee need not take any action which might involve it in personal liability or be unduly prejudicial to the holders of the senior subordinated debt securities not joining in the action.

A holder may pursue a remedy directly under the senior subordinated indenture or the series of senior subordinated debt securities, but before doing so, the following must occur:

the holder must give to the trustee written notice that an event of default has occurred and is continuing;

the holders of at least 25% in principal amount of the then outstanding senior subordinated debt securities of all affected series, treating all those series as a single class, must make a written request to the trustee to pursue the remedy;

the holder, or holders, must offer and, if requested, provide to the trustee an indemnity satisfactory to the trustee against any loss, liability or expense from the taking of the action;

the trustee does not comply with the request within 60 days after receipt of the request and offer of indemnity; and

during the 60 day period, the holders of a majority in principal amount of the then outstanding senior subordinated debt securities of all those series, treating all those series as a single class, do not give the trustee a direction inconsistent with the written request.

However, holders have an absolute right to receipt of principal, premium, if any, and interest on or after the respective due dates and to institute suit for the enforcement of those payments. The right of a holder of senior subordinated debt securities to bring suit for the enforcement of any payments of principal, premium, if any, and interest on senior subordinated debt securities on or after the respective due dates may not be impaired or affected without the consent of that holder.

Edgar Filing: KULICKE & SOFFA INDUSTRIES INC - Form POS AM

The holders of a majority in principal amount of the senior subordinated debt securities then outstanding of all affected series, treating all such series as a single class, may by notice to the trustee on behalf of all holders of the senior subordinated debt securities of such series waive any past defaults, except:

a continuing default in payment of the principal of, premium, if any, or interest on, or any sinking fund payment on, senior subordinated debt securities of the series; and

a continuing default in respect of a covenant or provision of the indenture which cannot be amended or modified without the consent of each holder of senior subordinated debt securities affected.

We will periodically file statements with the trustees regarding our compliance with covenants in the senior subordinated indenture.

- 78 -

Table of Contents

Modifications and Amendments. Except as provided below, or more fully specified in the senior subordinated indenture, the senior subordinated indenture may be amended or supplemented by us and the trustee with the consent of holders of a majority in principal amount of all series of senior subordinated debt securities affected by the amendment or supplement, treating all such series as a single class. In addition, the record holders of a majority in principal amount of the outstanding senior subordinated debt securities of all series affected by the waiver, treating all such series as a single class, may, with respect to those series, waive defaults under, or compliance with, the provisions of the senior subordinated indenture. However, some amendments or waivers require the consent of each holder of any senior subordinated debt security affected. Without the consent of each holder, an amendment or waiver may not:

reduce the principal amount of the senior subordinated debt securities of any series whose holders must consent to an amendment, supplement or waiver;

reduce the principal or change the fixed maturity of the principal of, premium, if any, or mandatory sinking fund obligation, if any, of any senior subordinated debt securities of any series or alter the provisions with respect to the redemption of the senior subordinated debt securities;

reduce the rate, or change the time for payment, of interest, including default interest, on any senior subordinated debt security of any series;

waive a default or event of default in the payment of principal of, or interest or premium on, the senior subordinated debt securities of any series, except a rescission of acceleration of the senior subordinated debt securities by the holders of a majority in aggregate principal amount of the senior subordinated debt securities of any series and a waiver of the payment default that resulted from that acceleration;

make any senior subordinated debt security of any series payable in currency other than that stated in the senior subordinated debt securities of that series;

make any change in the provisions of the senior subordinated indenture relating to waivers of past defaults or the rights of the holders of senior subordinated debt securities to receive payments of principal of or interest or premium on the senior subordinated debt securities;

waive a redemption payment with respect to any senior subordinated debt security;

make any change in the right of any holders of senior subordinated debt securities regarding waivers of defaults or impair or affect the right of any holder of a senior subordinated debt security of any series to receive payment of principal, premium, if any, and interest on that security on or after the due date expressed in that security or to bring suit for the enforcement of any payment on or after the due date; or

make any change in the above amendment and waiver provisions.

We and the trustee under the senior subordinated indenture may amend or supplement the senior subordinated indenture or the senior subordinated debt securities issued thereunder without the consent of any holder:

to evidence the succession of another person to us, or successive successions, and the assumption by the successors of our covenants, agreements and obligations under the senior subordinated indenture;

to add other covenants, restrictions or conditions for the protection of the holders of all or any series of senior subordinated debt securities;

to add events of default;

to provide for the issuance of senior subordinated debt securities in coupon form and to provide for exchangeability of those senior subordinated debt securities under the indenture in fully registered form;

to provide for the issuance of and to establish the form, terms and conditions of senior subordinated debt securities of any series;

to evidence and provide for the acceptance of appointment by a successor trustee and to add or change any of the provisions of the indenture necessary to provide for or facilitate the administration of the trusts under the indenture by more than one trustee;

Table of Contents

to cure any ambiguity, or to correct or supplement any provision in the indenture which may be defective or inconsistent with any other provision contained in the indenture or in any supplemental indenture, or to make any other provisions with respect to matters or questions arising under that indenture, so long as the interests of holders of senior subordinated debt securities of any series are not adversely affected in any material respect under that indenture; or

to make any change that does not adversely affect the rights of any holder.

Particular Terms of the Subordinated Debt Securities

Ranking of Subordinated Debt Securities. The subordinated debt securities will be subordinated and junior in right of payment to any senior debt securities and senior subordinated debt securities and certain other indebtedness of Kulicke & Soffa to the extent set forth in the prospectus supplement.

Subordination. Unless the prospectus supplement indicates otherwise, the subordination provisions of the subordinated debt securities will be the same as those of the senior subordinated debt securities just described, with the following exceptions:

Senior debt will include our obligations under the senior subordinated debt securities, as well as under the other debt specified above; and

Different series of subordinated debt securities may rank senior to other series. In that case, our obligations under the higher-ranking series will be senior debt in relation to the lower-ranking series.

Events of Default. The following are events of default under a series of subordinated debt securities:

we fail to pay the principal, any premium, if any, or any sinking fund payment, on any subordinated debt securities of that series when due;

we fail to pay interest on any debt securities of that series within 30 days following the due date;

we fail to observe or perform any other covenant, representation, warranty or other agreement in the subordinated indenture applicable to that series and that failure continues for 60 days after we receive notice to comply from the trustee or holders of at least 25% in aggregate principal amount of the outstanding subordinated debt securities of that series and all other series that rank equal with that series and with respect to which that default has occurred, treating all those series as a single class;

certain events of bankruptcy or insolvency occur, whether voluntary or not.

The prospectus supplement for a particular series may describe additional or different events of default that apply to that series. An event of default with respect to one series of subordinated debt securities does not necessarily constitute an event of default with respect to any other series of subordinated debt securities.

If a default or an event of default occurs and is continuing, and if a responsible officer of the trustee under the indenture has actual knowledge thereof, the trustee will mail to the holders of subordinated debt securities of the affected series a notice to that effect within 90 days after it occurs. Except in the case of a default in the payment of principal or interest, the trustee under the subordinated indenture may withhold notice if and so long as a committee of the trustee's responsible officers in good faith determines that withholding the notice is in the interests of the holders.

If an event of default with respect to any series of subordinated debt securities occurs and is continuing, the trustee or the holders of at least 25% in aggregate principal amount of the then outstanding subordinated debt securities of that series and all other series that rank equal with that series and with respect to which the event of default occurs and is continuing, treating all those series as a single class, may declare the principal of, premium, if any, and accrued and unpaid interest (subject to applicable subordination provisions in the relevant indenture) of all

Table of Contents

the subordinated debt securities of those series to be immediately due and payable. The holders of a majority in aggregate principal amount of the then outstanding subordinated debt securities of all series covered by such declaration may annul and rescind the declaration.

The subordinated indenture entitles the trustee to be indemnified by the holders before proceeding to exercise any right or power at the request of any of the holders.

The holders of a majority in principal amount of the outstanding subordinated debt securities of all series with respect to which an event of default occurs and is continuing and that rank equal with each other, treating all those series as a single class, may direct the time, method and place of conducting any proceeding for any remedy available to the trustee or exercising any trust power conferred on it with respect to those series, except that:

the direction cannot conflict with any rule or the subordinated indenture;

the trustee may take any other action deemed proper by the trustee which is not inconsistent with the direction; and

the trustee need not take any action which might involve it in personal liability or be unduly prejudicial to the holders of the subordinated debt securities not joining in the action.

A holder may pursue a remedy directly under the indenture or the series of subordinated debt securities, but before doing so, the following must occur:

the holder must give to the trustee written notice that an event of default has occurred and is continuing;

the holders of at least 25% in principal amount of the then outstanding subordinated debt securities of all affected series that rank equal with each other, treating all those securities as a single class, must make a written request to the trustee to pursue the remedy;

the holder, or holders, must offer and, if requested, provide to the trustee an indemnity satisfactory to the trustee against any loss, liability or expense from the taking of the action;

the trustee does not comply with the request within 60 days after receipt of the request and offer of indemnity; and

during the 60 day period, the holders of a majority in principal amount of the then outstanding subordinated debt securities of all those series, treating all those securities as a single class, do not give the trustee a direction inconsistent with the written request.

However, holders have an absolute right to receipt of principal, premium, if any, and interest on or after the respective due dates and to institute suit for the enforcement of those payments. The right of a holder of subordinated debt securities to bring suit for the enforcement of any payments of principal, premium, if any, and interest on subordinated debt securities on or after the respective due dates may not be impaired or affected without the consent of that holder.

Edgar Filing: KULICKE & SOFFA INDUSTRIES INC - Form POS AM

The holders of a majority in principal amount of the subordinated debt securities then outstanding of all affected series that rank equal with each other, treating all such series as a single class, may by notice to the trustee on behalf of all holders of the subordinated debt securities of such series waive any past defaults, except:

a continuing default in payment of the principal of, premium, if any, or interest on, or any sinking fund payment on, subordinated debt securities of the series; and

a continuing default in respect of a covenant or provision of the indenture which cannot be amended or modified without the consent of each holder of each debt securities affected.

We will periodically file statements with the trustee regarding our compliance with covenants in the subordinated indenture.

Table of Contents

Modifications and Amendments. Except as provided below, or more fully specified in the subordinated indenture, the subordinated indenture may be amended or supplemented by us and the trustee with the consent of holders of a majority in principal amount of each series of debt securities affected by the amendment or supplement, that rank equal with each other, treating all such series as a single class. In addition, the record holders of a majority in principal amount of the outstanding subordinated debt securities of all series affected by the waiver that rank equal with each other, treating all such series as a single class, may, with respect to those series, waive defaults under, or compliance with, the provisions of the subordinated indenture. However, some amendments or waivers require the consent of each holder of any debt security affected. Without the consent of each holder, an amendment or waiver may not:

reduce the principal amount of the subordinated debt securities of any series whose holders must consent to an amendment, supplement or waiver;

reduce the principal or change the fixed maturity of the principal of, premium, if any, or mandatory sinking fund obligation if any, of any subordinated debt securities of any series or alter the provisions with respect to the redemption of the subordinated debt securities;

reduce the rate, or change the time for payment, of interest, including default interest, on any subordinated debt security of any series;

waive a default or event of default in the payment of principal of, or interest or premium on, the subordinated debt securities of any series, except a rescission of acceleration of the subordinated debt securities by the holders of a majority in aggregate principal amount of the subordinated debt securities of any series and a waiver of the payment default that resulted from that acceleration;

make any subordinated debt security of any series payable in currency other than that stated in the debt securities of that series;

make any change in the provisions of the subordinated indenture relating to waivers of past defaults or the rights of the holders of subordinated debt securities to receive payments of principal of or interest or premium on the subordinated debt securities;

waive a redemption payment with respect to any subordinated debt security;

make any change in the right of any holders of subordinated debt securities regarding waivers of defaults or impair or affect the right of any holder of a subordinated debt security of any series to receive payment of principal, premium, if any, and interest on that security on or after the due date expressed in that security or to bring suit for the enforcement of any payment on or after the due date; or

make any change in the above amendment and waiver provisions.

We and the trustee under the subordinated indenture may amend or supplement the indenture or the debt securities issued thereunder without the consent of any holder:

to evidence the succession of another person to us, or successive successions, and the assumption by the successors of our covenants, agreements and obligations under the subordinated indenture;

to add other covenants, restrictions or conditions for the protection of the holders of all or any series of subordinated debt securities;

to add events of default;

to provide for the issuance of subordinated debt securities in coupon form and to provide for exchangeability of those debt securities under the indenture in fully registered form;

to provide for the issuance of and to establish the form, terms and conditions of subordinated debt securities of any series;

to evidence and provide for the acceptance of appointment by a successor trustee and to add or change any of the provisions of the indenture necessary to provide for or facilitate the administration of the trusts under the indenture by more than one trustee;

to cure any ambiguity, or to correct or supplement any provision in the indenture which may be defective or inconsistent with any other provision contained in the indenture or in any supplemental indenture, or to make any other provisions with respect to matters or questions arising under that indenture, so long as the interests of holders of debt securities of any series are not adversely affected in any material respect under that indenture; or

Table of Contents

to make any change that does not adversely affect the rights of any holder.

In determining whether series of subordinated debt securities rank equal with each other for purposes of the default, waiver and amendment provisions described above, a series that is convertible into equity securities of us is not equal with a series that is not so convertible.

DESCRIPTION OF WARRANTS

The following description describes the general terms and provisions of the warrants to which any prospectus supplement may relate. The prospectus supplement relating to the warrants will describe the particular term of the warrants and the extent, if any, to which these general provisions may apply to the warrants offered.

We may issue warrants to purchase senior debt securities, senior subordinated debt securities, subordinated convertible debt securities, preferred stock, depositary shares, common stock or any combination thereof. The warrants may be issued independently or together with any other securities and may be attached or separate from the other securities. Each series of warrants will be issued under a separate warrant agreement to be entered into between a warrant agent and us. The warrant agent will act solely as our agent in connection with the warrants of any series and will not assume any obligation or relationship of agency for or with holders or beneficial owners of warrants.

The applicable prospectus supplement will describe the terms of any warrants and the related offering in respect of which this prospectus is being delivered, including the following:

the title of the warrants;

the aggregate number of the warrants;

the price or prices at which the warrants will be issued;

the designation and terms of the underlying securities purchasable upon exercise of the warrants and the number of such underlying securities issuable upon exercise of the warrants;

the price or prices at which the warrants may be exercised to purchase the securities underlying them;

the date on which the right to exercise the warrants shall commence and the date on which the right shall expire;

whether the warrants will be issued in registered form or bearer form;

if applicable, the minimum or maximum amount of the warrants which may be exercised at any one time;

Edgar Filing: KULICKE & SOFFA INDUSTRIES INC - Form POS AM

if applicable, the designation and terms of the other securities with which the warrants are issued and the number of such warrants issued with each such underlying warrant security;

if applicable, the date on and after which the warrants and other securities will be separately transferable;

information with respect to book-entry procedures, if any;

if applicable, a discussion of certain United States federal income tax considerations;

the procedures and conditions relating to the exercise of the warrants; and

any other terms of the warrants, including terms, procedures and limitations relating to the exchange and exercise of the warrants.

DESCRIPTION OF UNITS

We may issue units consisting of common stock, warrants, debt securities, preferred stock or any combination of those securities. The applicable prospectus supplement will describe the terms of any units including the following:

the terms of the units and each of the securities included in the units, including whether and under what circumstances the securities included in the units may or may not be traded separately;

the terms of any unit agreement governing the units; and

the provisions for the payment, settlement, transfer or exchange of the units.

Table of Contents

PLAN OF DISTRIBUTION

We may sell the securities being offered hereby in any of, or any combination of, the following ways: directly to purchasers; through agents; through underwriters; and/or through dealers.

Offers to purchase the securities may be solicited by agents designated by us from time to time. Any agent involved in the offer or sale of the securities under this prospectus will be named, and any commissions payable by us to these agents will be set forth, in a related prospectus supplement. Unless otherwise indicated in a prospectus supplement, any agent will be acting on a reasonable best efforts basis for the period of its appointment. Any agent may be deemed to be an underwriter, as that term is defined in the Securities Act, of the securities so offered and sold.

If the securities are sold by means of an underwritten offering, we will execute an underwriting agreement with an underwriter or underwriters at the time an agreement for such sale is reached, and the names of the specific managing underwriter or underwriters, as well as any other underwriters, the respective amounts underwritten and the terms of the transaction, including commissions, discounts and any other compensation of the underwriters and dealers, if any, will be set forth in the related prospectus supplement. That prospectus supplement and this prospectus will be used by the underwriters to make resales of the securities. If underwriters are used in the sale of any securities in connection with this prospectus, those securities will be acquired by the underwriters for their own account and may be resold from time to time in one or more transactions, including negotiated transactions, at fixed public offering prices, at market prices prevailing at the time of sale, or at prices related to such prevailing market prices.

Securities may be offered to the public either through underwriting syndicates represented by managing underwriters or directly by one or more underwriter. If any underwriter or underwriters are used in the sale of securities, unless otherwise indicated in a related prospectus supplement, the underwriting agreement will provide that the obligations of the underwriters are subject to some conditions precedent and that the underwriters with respect to a sale of these securities will be obligated to purchase all such securities if any are purchased.

We may grant to the underwriters options to purchase additional securities, to cover over-allotments, if any, at the public offering price, with additional underwriting commissions or discounts, as may be set forth in a related prospectus supplement. If we grant any over-allotment option, the terms of that over-allotment option will be set forth in the related prospectus supplement.

If we use a dealer in the sale of the securities in respect of which this prospectus is delivered, we will sell the securities to the dealer as principal. The dealer may then resell such securities to the public at varying prices to be determined by such dealer at the time of resale. Any such dealer may be deemed to be an underwriter, as such term is defined in the Securities Act, of the securities so offered and sold. The name of the dealer and the terms of the transaction will be set forth in the prospectus supplement relating to those offers and sales.

We may also directly solicit offers to purchase securities and those sales may be made by us directly to institutional investors or others, who may be deemed to be underwriters within the meaning of the Securities Act with respect to any resale of those securities. The terms of any sales of this type will be described in the prospectus supplement.

Agents, underwriters and dealers may be entitled under relevant agreements with us to indemnification by us against some liabilities, including liabilities under the Securities Act, or to contributions with respect to payments which such agents, underwriters and dealers may be required to

make in respect thereof.

Agents, underwriters and dealers may engage in transactions that stabilize maintain or otherwise affect the price of the securities being offered, including over-allotment, stabilizing and short-covering transactions in such securities, and the imposition of a penalty bid, in connection with the offering.

In connection with the offering of securities, the underwriters may make short sales of our shares and purchase these shares on the open market to cover positions created by short sales. Such sales involve the sale by the underwriters of shares that they are required to purchase in an offering. Short sales may be either covered or naked. Covered short sales are sales made in an amount not greater than the underwriters over-allotment option to purchase additional shares in the offering; naked short sales are sales in excess of the over-allotment option. Underwriters may close out a covered short position either by exercising their over-allotment option or purchasing shares in the open market; naked short positions must be closed by purchasing shares in the open market. Naked short positions are more likely to be created if the underwriters are concerned that there may be downward pressure on the price of the shares in the open market after pricing that could adversely affect investors who purchase in the offering. The underwriters purchases to cover syndicate short sales may raise or maintain the market price of the stock or prevent or retard a decline in the market price of the stock. As a result, the price of the stock may be higher as a result of syndicate short sales than it would otherwise be in an open market.

Agents, underwriters and dealers may be customers of, engage in transactions with, or perform services for, us in the ordinary course of our business.

Table of Contents

LEGAL MATTERS

Certain legal matters in connection with the legality of any common stock, preferred stock, debt securities and warrants offered hereby will be passed upon for us by Drinker Biddle & Reath LLP, Philadelphia, Pennsylvania.

EXPERTS

The consolidated financial statements as of September 30, 2003 and 2004 and for each of the three years in the period ended September 30, 2004, included in this prospectus, have been so included in reliance on the report of PricewaterhouseCoopers, LLP, an independent registered public accounting firm, given on the authority of said firm as experts in accounting and auditing.

- 85 -

Table of Contents

WHERE YOU CAN FIND MORE INFORMATION

We have filed with the SEC a registration statement (including the exhibits, schedules and amendments to the registration statement) under the Securities Act for the securities offered by this prospectus. This prospectus does not contain all of the information set forth in the registration statement, portions of which are omitted as permitted by the rules and regulations of the SEC. For further information pertaining to us and the securities offered by this prospectus, please refer to the registration statement. Statements contained in this prospectus as to the contents of any contract, agreement or other document referred to, are not necessarily complete and, where the contract, agreement or other document is an exhibit to the registration statement, each statement is qualified in all respects by the provisions of the exhibit, to which reference is now made.

We file reports, proxy statements, and other information with the SEC. These reports, proxy statements, and other information concerning us can be read and copied at the SEC's Public Reference Room at 450 Fifth Street, N.W., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the Public Reference Room. The SEC maintains an internet site at <http://www.sec.gov> that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC, including us. Our common stock is listed on the Nasdaq National Market under the symbol KLIC. The reports, proxy statements, and other information that we file with the SEC also are available at the following Nasdaq address: Nasdaq Operations, 1735 K Street, N.W., Washington, D.C. 20006.

Table of Contents

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

	Page
<u>Report of Independent Auditors</u>	F-2
Financial Statements:	
<u>Consolidated Balance Sheets as of September 30, 2004 and 2003</u>	F-3
<u>Consolidated Statements of Operations for the fiscal years ended September 30, 2004, 2003 and 2002</u>	F-4
<u>Consolidated Statements of Cash Flows for the fiscal years ended September 30, 2004, 2003 and 2002</u>	F-5
<u>Consolidated Statements of Changes in Shareholders' Equity for the fiscal years ended September 30, 2004, 2003 and 2002</u>	F-6
<u>Notes to Consolidated Financial Statements</u>	F-7

Table of Contents

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of Kulicke and Soffa Industries, Inc.:

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Kulicke and Soffa Industries, Inc. and its subsidiaries at September 30, 2004 and September 30, 2003, and the results of their operations and their cash flows for each of the three years in the period ended September 30, 2004 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule presents fairly in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

/s/ PricewaterhouseCoopers LLP

Philadelphia, Pennsylvania

November 18, 2004

F-2

Table of Contents**KULICKE AND SOFFA INDUSTRIES, INC.****CONSOLIDATED BALANCE SHEETS***(in thousands)*

	<u>September 30,</u> <u>2003</u>	<u>September 30,</u> <u>2004</u>
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 65,725	\$ 60,333
Restricted cash	2,836	3,257
Short-term investments	4,490	32,176
Accounts receivable, (net of allowance for doubtful accounts: 9/30/03 - \$5,929; 9/30/04 - \$3,646)	94,144	110,718
Inventories, net	37,906	58,017
Assets held for sale	6,799	6,072
Prepaid expenses and other current assets	11,187	10,310
Deferred income taxes	10,700	12,417
	<u>233,787</u>	<u>293,300</u>
TOTAL CURRENT ASSETS	233,787	293,300
Property, plant and equipment, net	54,439	51,434
Intangible assets, (net of accumulated amortization: 9/30/03 - \$26,187; 9/30/04 - \$35,209)	66,249	54,045
Goodwill	81,440	81,440
Other assets	6,946	7,463
	<u>442,861</u>	<u>487,682</u>
TOTAL ASSETS	\$ 442,861	\$ 487,682
LIABILITIES AND SHAREHOLDERS EQUITY		
CURRENT LIABILITIES:		
Current portion of long term debt	\$ 36	\$ 202
Accounts payable	45,844	50,002
Accrued expenses	41,885	37,660
Income taxes payable	13,394	11,986
	<u>101,159</u>	<u>99,850</u>
TOTAL CURRENT LIABILITIES	101,159	99,850
Long term debt	300,338	275,725
Other liabilities	9,865	8,112
Deferred taxes	31,402	36,975
	<u>442,764</u>	<u>420,662</u>
TOTAL LIABILITIES	442,764	420,662
Commitments and contingencies		
SHAREHOLDERS EQUITY:		
Preferred stock, without par value: Authorized - 5,000 shares; issued - none		
Common stock, without par value: Authorized - 200,000 shares; issued and outstanding: 2003 - 50,092; 2004 - 51,162	203,607	213,847
Retained earnings (deficit)	(195,792)	(139,912)
Accumulated other comprehensive loss	(7,718)	(6,915)
	<u>97</u>	<u>67,020</u>
TOTAL SHAREHOLDER S EQUITY	97	67,020

TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	<u>\$ 442,861</u>	<u>\$ 487,682</u>
--	-------------------	-------------------

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

F-3

Table of Contents**KULICKE AND SOFFA INDUSTRIES, INC.****CONSOLIDATED STATEMENTS OF OPERATIONS***(in thousands, except per share amounts)*

	Fiscal Year Ended September 30,		
	2002	2003	2004
Net revenue	\$ 441,565	\$ 477,935	\$ 717,811
Cost of sales	340,745	349,727	486,806
Gross profit	100,820	128,208	231,005
Selling, general and administrative	135,054	102,327	101,225
Research and development, net	51,929	38,121	34,611
Resizing	18,768	(475)	(68)
Asset impairment	31,594	3,629	3,293
Goodwill impairment	74,295		
Amortization of intangibles	9,864	9,260	9,022
Gain on sale of assets			(1,023)
Loss on sale of product lines		5,257	
Operating expense	321,504	158,119	147,060
Income (loss) from operations	(220,684)	(29,911)	83,945
Interest income	3,758	940	1,109
Interest expense	(18,699)	(17,431)	(10,466)
Charge on extinguishment of debt			(10,510)
Other income and minority interest	2,010		
Income (loss) from continuing operations before income taxes	(233,615)	(46,402)	64,078
Provision for income taxes for continuing operations	32,561	7,594	7,386
Net income (loss) from continuing operations	(266,176)	(53,996)	56,692
Loss from discontinued operations, net of tax	(7,939)	(22,693)	(432)
Loss on sale of FCT Division, net of tax			(380)
Net income (loss)	\$ (274,115)	\$ (76,689)	\$ 55,880
Net income (loss) per share from continuing operations:			
Basic	\$ (5.41)	\$ (1.09)	\$ 1.12
Diluted	\$ (5.41)	\$ (1.09)	\$ 0.90
Loss per share from discontinued operations:			
Basic	\$ (0.16)	\$ (0.46)	\$ (0.02)
Diluted	\$ (0.16)	\$ (0.46)	\$ (0.01)
Net income (loss) per share:			
Basic	\$ (5.57)	\$ (1.54)	\$ 1.10
Diluted	\$ (5.57)	\$ (1.54)	\$ 0.89

Edgar Filing: KULICKE & SOFFA INDUSTRIES INC - Form POS AM

Weighted average shares outstanding:

Basic	49,217	49,695	50,746
Diluted	49,217	49,695	68,582

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

F-4

Table of Contents**KULICKE AND SOFFA INDUSTRIES, INC.****CONSOLIDATED STATEMENTS OF CASH FLOWS***(in thousands)*

	Fiscal Year Ended September 30,		
	2002	2003	2004
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income (loss)	\$ (274,115)	\$ (76,689)	\$ 55,880
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization	44,315	37,852	30,678
Charge on early extinguishment of debt			10,510
Tax benefit from exercise of stock options	329	89	991
Provision for doubtful accounts	158	519	(850)
Impairment of fixed and intangible assets	31,594	10,502	3,293
Impairment of goodwill	74,295	5,667	
Loss (gain) on sale of product lines and properties		5,257	(1,023)
Deferred taxes	32,808		466
Provision for inventory valuations	14,362	3,490	3,566
Non-cash employee benefits	5,061	2,230	2,262
Changes in working capital accounts, net of effect of acquired and sold businesses:			
Accounts receivable	(10,188)	(5,531)	(19,293)
Inventories	9,076	2,454	(23,766)
Prepaid expenses and other assets	(1,853)	(1,138)	1,512
Accounts payable and accrued expenses	7,855	(18,142)	1,750
Taxes payable	(4,739)	3,734	1,982
Other, net	(961)	604	3,304
Net cash provided by (used in) operating activities	(72,003)	(29,102)	71,262
CASH FLOWS FROM INVESTING ACTIVITIES:			
Proceeds from sales of investments classified as available for sale	59,224	26,287	17,286
Purchase of investments classified as available for sale	(33,850)	(8,603)	(44,992)
Purchases of plant and equipment	(20,385)	(10,975)	(13,405)
Sale (purchase) of Flip Chip	(96)		3,352
Purchase of Probe Tech, net of cash acquired	1,472		
Proceeds from sale of property and equipment		1,643	933
Net cash provided by (used in) investing activities	6,365	8,352	(36,826)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net proceeds from issuance of 0.5% convertible subordinated notes			199,328
Net proceeds from issuance of 1.0% convertible subordinated notes			63,189
Purchase of 4.75% convertible subordinate notes			(178,563)
Purchase of 5.25% convertible subordinate notes			(127,425)
Payments on borrowings, including capitalized leases	(1,685)	(205)	(93)
Restricted cash	(3,180)	344	(421)
Proceeds from issuances of common stock	1,438	424	4,162

Edgar Filing: KULICKE & SOFFA INDUSTRIES INC - Form POS AM

Net cash provided by (used in) financing activities	(3,427)	563	(39,823)
Effect of exchange rate changes on cash and cash equivalents	15	(74)	(5)
Change in cash and cash equivalents	(69,050)	(20,261)	(5,392)
Cash and cash equivalents at:			
Beginning of year	155,036	85,986	65,725
End of year	\$ 85,986	\$ 65,725	\$ 60,333
Supplemental Disclosures:			
Cash payments for interest	\$ 15,400	\$ 15,700	\$ 11,100
Cash payments for income taxes	\$ 9,200	\$ 4,800	\$ 4,800

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

F-5

Table of Contents**KULICKE AND SOFFA INDUSTRIES, INC.****CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY***(in thousands)*

	Common Stock		Retained Earnings (Deficit)	Accumulated Other Comprehensive Loss	Shareholders Equity
	Shares	Amount			
Balances at September 30, 2001	49,034	\$ 193,058	\$ 155,012	\$ (9,523)	\$ 338,547
Employer contribution to the Company's 401K plan	214	2,478			2,478
Exercise of stock options	166	1,438			1,438
Tax benefit from exercise of stock options		329			329
Modification of stock options for terminated employees		2,583			2,583
Components of comprehensive income:					
Net loss			(274,115)		(274,115)
Translation adjustment				730	730
Unrealized loss on investments, net				(264)	(264)
Minimum pension liability (net of taxes of \$1,294)				(2,403)	(2,403)
Total comprehensive loss					(276,052)
Balances at September 30, 2002	49,414	\$ 199,886	\$ (119,103)	\$ (11,460)	\$ 69,323
Employer contribution to Company's 401K plan	429	2,230			2,230
Employer contribution to Company's pension plan	150	987			987
Exercise of stock options	99	415			415
Tax benefit from exercise of stock options		89			89
Components of comprehensive income:					
Net loss			(76,689)		(76,689)
Translation adjustment				2,953	2,953
Unrealized gain on investments, net				51	51
Minimum pension liability (net of taxes of \$397)				738	738
Total comprehensive loss					(72,947)
Balances at September 30, 2003	50,092	\$ 203,607	\$ (195,792)	\$ (7,718)	\$ 97
Employer contribution to Company's 401K plan	214	2,262			2,262
Employer contribution to Company's pension plan	230	2,825			2,825
Exercise of stock options	626	4,162			4,162
Tax benefit from exercise of stock options		991			991
Components of comprehensive income:					
Net income			55,880		55,880
Translation adjustment				445	445
Unrealized loss on investments, net				(42)	(42)
Minimum pension liability (net of taxes of \$215)				400	400
Total comprehensive income					56,683
Balances at September 30, 2004	51,162	\$ 213,847	\$ (139,912)	\$ (6,915)	\$ 67,020

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

F-6

Table of Contents

KULICKE AND SOFFA INDUSTRIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Nature of Business - The Company designs, manufactures and markets capital equipment, packaging materials and test interconnect solutions and services, maintains, repairs and upgrades assembly equipment. The Company's operating results depend upon the capital and operating expenditures of semiconductor manufacturers and subcontract assemblers worldwide which, in turn, depend on the current and anticipated market demand for semiconductors and products utilizing semiconductors. The semiconductor industry is highly volatile and experiences periodic downturns and slowdowns which have a severe negative effect on the semiconductor industry's demand for semiconductor capital equipment, including assembly equipment manufactured and marketed by the Company and, to a lesser extent, packaging materials and test interconnect solutions such as those sold by the Company. Over time, these downturns and slowdowns have also 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.

Management Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The more significant areas involving the use of estimates in these financial statements include allowances for uncollectible 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, deferred tax liabilities for undistributed earnings of certain foreign subsidiaries, self insurance reserves, pension benefit liabilities, resizing, warranty and litigation. Actual results could differ from those estimated.

Vulnerability to Certain Concentrations - Financial instruments which may subject the Company to concentration of credit risk at September 30, 2004 and 2003 consist primarily of investments and trade receivables. The Company manages credit risk associated with investments by investing its excess cash in investment grade debt instruments of the U.S. Government, 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 to take advantage of trends in yields and interest rates. The Company's trade receivables result primarily from the sale of semiconductor equipment, related accessories and replacement parts, packaging materials and test interconnect products to a relatively small number of large manufacturers in a highly concentrated industry. The Company continually assesses the financial strength of its customers to reduce the risk of loss. Write-offs of uncollectible accounts have historically not been significant.

Cash Equivalents - The Company considers all highly liquid investments with original maturities of three months or less when purchased to be cash equivalents.

Investments - Investments, other than cash equivalents, are classified as trading, available-for-sale or held-to-maturity, in accordance with SFAS 115, 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

Edgar Filing: KULICKE & SOFFA INDUSTRIES INC - Form POS AM

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 are 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.

Allowance for Doubtful Accounts. The Company maintains allowances for doubtful accounts for estimated losses resulting from the inability of its customers 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 also is subject to concentrations of customers and sales to a few geographic locations, which may also impact the

F-7

Table of Contents

collectability of certain receivables. If economic or political conditions were to change in the countries where the Company does business, it could have a significant impact on the results of its operations, and its ability to realize the full value of its accounts receivable.

Inventories - Inventories are stated at the lower of standard cost (which approximates actual cost on a first-in first-out basis) or market value, except for certain gold inventories on hand that are stated at market value (along with a corresponding liability) in accordance with the terms of our gold supply financing agreement. The Company generally provides reserves for equipment inventory and spare parts and consumable inventories considered to be in excess of eighteen (18) months of forecasted future demand and test interconnect inventory considered to be in excess of 12 months of forecasted future demand. The forecasted demand is based upon internal projections, historical sales volumes, customer order activity and a review of consumable inventory levels at our customers' facilities. The Company communicates forecasts of our future demand to its suppliers and adjusts commitments to those suppliers accordingly. If required, the Company reserves for the difference between the carrying value of its inventory and the lower of cost or market value, based upon assumptions about future demand, market conditions and the next cyclical market upturn. If actual market conditions are less favorable than its projections, additional inventory reserves may be required. The Company reviews and disposes of excess and obsolete inventory on a regular basis.

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 to 40 years; machinery and equipment 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.

Long-Lived Assets - The Company's long-lived assets include property, plant and equipment, goodwill and intangible assets. Effective October 1, 2001, the Company adopted SFAS 142, Goodwill and Other Intangible Assets. In accordance with the provisions of this standard, the Company's goodwill is no longer amortized. The standard also requires that an impairment test be performed to support the carrying value of goodwill at least annually, and whenever events occur that may impact the carrying value of goodwill. The Company's goodwill impairment test utilizes discounted cash flows to determine fair value and comparative market multiples to corroborate fair value.

The Company's intangible assets with determinable lives, which are comprised of customer accounts and complete technology in its test interconnect business segment, will continue to be amortized over their estimated useful life. The Company amortizes these intangible assets on a straight-line basis over the estimated period to be benefited by the intangible assets, which it estimates to be 10 years. The Company manages and values its complete technology in the aggregate as one asset group.

In accordance with SFAS No. 144, Accounting for the Impairment or Disposal of Long-lived Assets, the Company's intangible assets and property, plant and equipment are tested for impairment based on undiscounted cash flows, and if impaired, written-down to fair value based on either discounted cash flows or appraised values. This standard 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 if 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. SFAS No. 144 requires that long-lived assets be tested for recoverability whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. Such events include significant under-performance relative to the expected historical or projected future operating results; significant changes in the manner of use of the assets; significant negative industry or economic trends and significant changes in market capitalization.

Shipping and Handling Revenues and Costs. In September 2000, the Emerging Issues Task Force (EITF) reached a final consensus on issue EITF No. 00-10, *Accounting for Shipping and Handling Revenues and Costs*. The Task Force concluded that amounts billed to customers related

to shipping and handling should be classified as revenue. The Company adopted the consensus in fiscal 2001, and the impact was not material to its financial position and results of operations.

Table of Contents

Accounting for Costs Associated with Exit or Disposal Activities - In June 2002, the FASB issued SFAS 146, *Accounting for Exit or Disposal Activities* which addresses significant issues regarding the recognition, measurement, and reporting of costs that are associated with exit and disposal activities, including restructuring activities that are currently accounted for pursuant to the guidance that the Emerging Issues Task Force (EITF) has set forth in EITF 94-3, *Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)*. The Company has adopted this standard and the adoption did not have a material impact on the Company's financial position and results of operations, however, this standard will in certain circumstances change the timing of recognition of restructuring (resizing) costs.

Foreign Currency Translation - The majority of the Company's business is transacted in U.S. dollars, however, the functional currency of some of the Company's subsidiaries is their local currency. For the Company subsidiaries that have 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)), in accordance with SFAS No. 52. 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. Net exchange and transaction gains (losses) were \$(900) thousand, \$(1.4) million and \$120 thousand, for the fiscal years ended September 30, 2004, 2003 and 2002, respectively.

Revenue Recognition - The Company recognizes revenue in accordance with Staff Accounting Bulletin No. 104 (SAB 104), *Revenue Recognition*. The Company recognizes revenue when persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, the price is fixed or determinable, the collectibility is reasonably assured, and it has completed its equipment installation obligations and received customer acceptance, or is otherwise released from its installation or customer acceptance obligations. In the event terms of the sale provide for a lapsing customer acceptance period, revenue is recognized based upon the expiration of the lapsing acceptance period or customer acceptance, whichever occurs first. The Company's standard terms are Ex Works (K&S factory), with title transferring to its customer at the Company's loading dock or upon embarkation. The Company does have a small percentage of sales with other terms, and revenue is recognized in accordance with the terms of the related customer purchase order. Revenue related to services is generally recognized upon performance of the services requested by a customer order. Revenue for extended maintenance service contracts with a term more than one month is recognized on a prorated straight-line basis over the term of the contract.

Research and Development - The Company charges all research and development costs associated with the development of new products to expense when incurred.

Income Taxes - Deferred income taxes are determined using the liability method in accordance with SFAS No. 109, *Accounting for Income Taxes*. No provision is made for U.S. income taxes on the portion of undistributed earnings of foreign subsidiaries which are indefinitely reinvested in foreign operations. The Company records a valuation allowance to reduce its deferred tax assets to the amount that is more likely than not to be realized.

Environmental Expenditures - Future environmental remediation expenditures are recorded in operating expenses when it is probable that a liability has been incurred and the amount of the liability can be reasonably estimated. Accrued liabilities do not include claims against third parties and are not discounted.

Earnings Per Share - Earnings per share are calculated in accordance with SFAS No. 128, *Earnings Per Share*. Basic earnings per share include only the weighted average number of common shares outstanding during the period. Diluted earnings per share include the weighted average number of common shares and the dilutive effect of stock options and other potentially dilutive securities outstanding during the period, when such instruments are dilutive.

Extinguishment of Debt - In April 2002, the FASB issued SFAS 145, *Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections*. In rescinding FASB Statement No. 4 and FASB No. 64, FASB 145 eliminates the requirement that gains and losses from the extinguishment of debt be aggregated and, if material, classified as an extraordinary item, net of the related income tax effect. However, an entity would not be prohibited from

Table of Contents

classifying such gains and losses as extraordinary items so long as they meet the criteria of paragraph 20 of APB 30, Reporting the Results of Operations *Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions*. Further, the Statement amends SFAS 13 to eliminate an inconsistency between the accounting for sale leaseback transactions and certain lease modifications that have economic effects that are similar to sale leaseback transactions. The Company has adopted this standard and the adoption did not have a material impact on its financial position and results of operations.

Variable Interest Entities - In January 2003, the FASB issued Interpretation No. 46 (FIN 46), *Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51*. FIN 46 requires certain variable interest entities to be consolidated by the primary beneficiary of the entity if the equity investors in the entity do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. Effective October 1, 2003, the Company identified a business enterprise that qualifies as a variable interest entity and consolidated the entity into the Company's financial statements in accordance with the new requirements beginning with the quarter ending December 31, 2003. The impact of this change increased the Company's assets and liabilities by approximately \$6.0 million.

Accounting for Stock-Based Compensation - The Company accounts for stock option grants using the intrinsic value method prescribed by Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees* (APB No. 25), and discloses the pro forma effect on net income and earnings per share as if the fair value method had been applied to stock option grants, in accordance with SFAS 123, *Accounting For Stock-Based Compensation*.

In December 2002, the FASB issued SFAS 148, *Accounting for Stock-Based Compensation-Transition and Disclosure*. This Statement amends FASB Statement No. 123, *Accounting for Stock-Based Compensation*, to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, this Statement amends the disclosure requirements of Statement 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The Company has adopted the disclosure provisions of this standard.

Pro forma information regarding net income and earnings per share is required by SFAS 123 for options granted after October 1, 1995 as if the Company had accounted for its stock option grants to employees under the fair value method of SFAS 123. The fair value of the Company's weighted averages of stock option grants to employees was estimated using a Black-Scholes option pricing model.

The following assumptions were employed to estimate the fair value of stock options granted to employees:

	Fiscal Year Ended September 30,		
	2002	2003	2004
Expected dividend yield			
Expected stock price volatility	82.95%	84.78%	83.42%
Risk-free interest rate	5.40%	2.89%	3.32%
Expected life (years)	7	5	5

Table of Contents

For pro forma purposes, the estimated fair value of the Company's stock options to employees and directors is amortized over the options' vesting period. The Company's pro forma information follows:

	<i>(net loss in thousands)</i>		
	Fiscal Year Ended September 30,		
	2002	2003	2004
Net income (loss), as reported	\$ (274,115)	\$ (76,689)	\$ 55,880
Deduct: Total stock-based compensation expense determined under fair value based method for all awards, net of related tax effects	(17,227)	(8,828)	(11,831)
Pro forma net income (loss)	\$ (291,342)	\$ (85,517)	\$ 44,049
Net income (loss) per share:			
Basic-as reported	\$ (5.57)	\$ (1.54)	\$ 1.10
Basic-pro forma	\$ (5.92)	\$ (1.72)	\$ 0.87
Diluted - as reported	\$ (5.27)	\$ (1.54)	\$ 0.89
Diluted - pro forma	\$ (5.92)	\$ (1.72)	\$ 0.72

Reclassifications - Certain amounts in the Company's financial statements have been reclassified pursuant to the requirements of Financial Accounting Standards (SFAS) No. 144, Accounting for the Impairment of Long Lived Assets, to reflect the Company's Flip Chip business unit as a discontinued operation. The 2003 loss on sale of product lines, as further discussed in Note 4, has been reclassified to be included in the operating expenses section of the consolidated statement of operations, from its prior presentation outside of the operating results.

NOTE 2: DISCONTINUED OPERATIONS

In February 1996, the Company entered into a joint venture agreement with Delco Electronics Corporation (Delco) providing for the formation and management of Flip Chip Technologies, LLC (FCT). FCT was formed to license related technologies and to provide wafer bumping services on a contract basis. In March 2001, the Company purchased the remaining interest in the joint venture owned by Delco for \$5.0 million and included FCT in its Advanced Packaging business segment. FCT was not profitable.

In February 2004, the Company sold the assets of FCT for approximately \$3.4 million in cash and notes, the agreement by the buyer to satisfy approximately \$5.2 million of the Company's lease liabilities and the assumption of certain other liabilities. The sale included fixed assets, inventories, and intellectual property of the Company's flip chip business. The major classes of FCT assets and liabilities sold included: \$3.6 million in accounts receivable, \$119 thousand in inventory, \$2.5 million in property, plant and equipment, \$119 thousand in other long term assets, \$1.5 million in accounts payable and \$1.0 million in accrued liabilities. The Company recorded a net loss on the sale of FCT of \$380 thousand. The net sales from FCT in fiscal 2004 were \$9.4 million and net loss was \$432 thousand. FCT has been recorded as a discontinued operation in these financial statements. The Company also reclassified its prior period financial statements to coincide with the current presentation.

The Company recorded revenue and pre-tax loss associated with FCT of \$16.4 million and \$22.7 million in fiscal 2003 and \$23.1 million and \$7.9 million in fiscal 2002. The Company recorded no income tax provision or benefit from the loss at FCT in fiscal 2002, 2003 and 2004.

NOTE 3: RESIZING COSTS

The semiconductor industry has been volatile, with sharp periodic downturns and slowdowns. The industry experienced excess capacity and a severe contraction in demand for semiconductor manufacturing equipment during our fiscal 2001, 2002 and most of 2003. The Company developed formal resizing plans in response to these changes in its business environment with the intent to align its cost structure with anticipated revenue levels. Accounting for resizing activities requires an

F-11

Table of Contents

evaluation of formally agreed upon and approved plans. The Company documented and committed to these plans to reduce spending that included facility closings/rationalizations and reductions in workforce. The Company recorded the expense associated with these plans in the period that it committed to the plans. Although the Company made every attempt to consolidate all known resizing activities into one plan, the extreme cycles and rapidly changing forecasting environment places limitations on achieving this objective. The recognition of a resizing event does not necessarily preclude similar but unrelated actions in future periods.

The Company recorded resizing charges of \$18.8 million in fiscal 2002 and \$4.2 million in fiscal 2001. In fiscal 2004, the Company reversed \$68 thousand of these resizing charges and in fiscal 2003 it reversed \$475 thousand of these resizing charges as the actual severance costs were less than the cost originally estimated.

In addition to the formal resizing costs identified below, the Company continued (and is continuing) to downsize its operations in fiscal 2002, 2003 and 2004. These downsizing efforts resulted in workforce reduction charges of \$4.5 million in fiscal 2004, \$5.6 million in fiscal 2003 and \$5.0 million in fiscal 2002. In contrast to the resizing plans discussed above, these workforce reductions were not related to formal or distinct restructurings, but rather, the normal and recurring management of employment levels in response to business conditions and our ongoing effort to reduce the Company's cost structure. In addition, during fiscal 2003, if the business conditions were to have improved, the Company was prepared to rehire some of these terminated individuals. These recurring workforce reduction charges were recorded as Selling, General and Administrative expenses.

A table of the charges, reversals and payments of the formal resizing plans initiated in fiscal 2002 appears below:

Fiscal 2002 Resizing Plans	<i>(in thousands)</i>		
	Severance and Benefits	Commitments	Total
Provision for resizing plans in fiscal 2002			
Continuing operations	9,486	9,282	18,768
Discontinued operations	893		893
Payment of obligations in fiscal 2002	(5,914)	(300)	(6,214)
Balance, September 30, 2002	4,465	8,982	13,447
Change in estimate	(455)		(455)
Payment of obligations in fiscal 2003	(3,135)	(3,192)	(6,327)
Balance, September 30, 2003	875	5,790	6,665
Change in estimate	(68)		(68)
Payment of obligations	(440)	(2,619)	(3,059)
Balance, September 30, 2004	\$ 367	\$ 3,171	\$ 3,538

The individual resizing plans and acquisition restructuring plans initiated in fiscal 2002 are described below:

Fourth Quarter 2002

In January 1999, the Company acquired the advanced substrate technology of MicroModule Systems, a Cupertino, California company, to enable production of high density substrates. While showing some progress in developing the substrate technology, the business was not profitable and would have required additional capital and operating cash to complete development of the technology. In light of the business downturn that was affecting the semiconductor industry at the time, in the fourth quarter of fiscal 2002, the Company announced that it could not afford to further develop the substrate technology and would close its substrate operations. As a result, the Company recorded a resizing charge of \$8.5 million. The resizing charge included a severance charge of \$1.2 million for the elimination of 48 positions and lease obligations of \$7.3 million. By June 30, 2003, all the positions had been eliminated. The plans have been completed but cash payments for the lease obligations are expected to continue into 2006, or such time as the obligations can be satisfied. In addition to these resizing charges, in the fourth quarter of fiscal 2002, the Company wrote-off \$7.3 million of fixed assets and \$1.1 million of intangible assets associated with the closure of the substrate operation. This substrate business was included in the Company's then existing Advanced Packaging business segment.

F-12

Table of Contents

Third Quarter 2002

As a result of the continuing downturn in the semiconductor industry and the Company's desire to improve the performance of its test business segment, the Company decided to move towards a 24 hour per-day manufacturing model in its major U.S. wafer test facility, which would provide its customers with faster turn-around time and delivery of orders and economies of scale in manufacturing. As a result, in the third quarter of fiscal 2002, the Company announced a resizing plan to reduce headcount and consolidate manufacturing in its test business segment. As part of this plan, the Company moved manufacturing of wafer test products from its facilities in Gilbert, Arizona and Austin, Texas to its facilities in San Jose, California and Dallas, Texas and from its Kaohsiung, Taiwan facility to its Hsin Chu, Taiwan facility. The resizing plan included a severance charge of \$1.6 million for the elimination of 149 positions as a result of the manufacturing consolidation. The resizing plan also included a charge of \$0.5 million associated with the closure of the Kaohsiung, Taiwan facility and an Austin, Texas facility representing costs of non-cancelable lease obligations beyond the facility closure and costs required to restore the production facilities to their original state. All of the positions have been eliminated and both facilities have been closed. The plans have been completed but cash payments for the severance, facility and contractual obligations are expected to continue through 2005, or such earlier time as the obligations can be satisfied.

Second Quarter 2002

As a result of the continuing downturn in the semiconductor industry and the Company's desire to more efficiently manage its business, in the second quarter of fiscal 2002, the Company announced a resizing plan comprised of a functional realignment of business management and the consolidation and closure of certain facilities. In connection with the resizing plan, the Company recorded a charge of \$11.3 million (\$10.4 million in continuing operations and \$0.9 million in discontinued operations), consisting of severance and benefits of \$9.7 million for 372 positions that were to be eliminated as a result of the functional realignment, facility consolidation, the shift of certain manufacturing to China (including the Company's hub blade business) and the move of the Company's microelectronics products to Singapore and a charge of \$1.6 million for the cost of lease commitments beyond the closure date of facilities to be exited as part of the facility consolidation plan.

In the second quarter of fiscal 2002, the Company closed five test facilities: two in the United States, one in France, one in Malaysia, and one in Singapore. These operations were absorbed into other company facilities. The resizing charge for the facility consolidation reflects the cost of lease commitments beyond the exit dates that are associated with these closed test facilities.

To reduce the Company's short term cash requirements, the Company decided, in the fourth quarter of fiscal 2002, not to relocate either its hub blade manufacturing facility from the United States to China or its microelectronics product manufacturing from the United States to Singapore, as previously announced. This change in the Company's facility relocation plan resulted in a reversal of \$1.6 million of the resizing costs recorded in the second quarter of fiscal 2002. As a result the Company reduced its expected annual savings from this resizing plan for payroll related expenses by approximately \$4.7 million.

Also in the fourth quarter of fiscal 2002, the Company reversed \$600 thousand (\$590 thousand in continuing operations and \$10 thousand in discontinued operations) of the severance resizing expenses and in the fourth quarter of fiscal 2003 the Company reversed \$353 thousand of resizing expenses, previously recorded in the second quarter of fiscal 2002, due to actual severance costs associated with the terminated positions being less than those estimated as a result of employees leaving the Company before they were severed.

As a result of the functional realignment, the Company terminated employees at all levels of the organization from factory workers to vice presidents. The organizational change shifted management of the Company businesses to functional (i.e. sales, manufacturing, research and development, etc.) areas across product lines rather than by product line. For example, research and development activities for the entire

Edgar Filing: KULICKE & SOFFA INDUSTRIES INC - Form POS AM

company are now controlled and coordinated by one corporate vice president under the functional organizational structure, rather than separately by each business unit. This structure provides for a more efficient allocation of human and capital resources to achieve corporate R&D initiatives.

F-13

Table of Contents

The plans have been completed but cash payments for the severance charges are expected to continue into 2005, or such time as the obligations can be satisfied.

NOTE 4: ASSET IMPAIRMENT

In addition to resizing costs (see Note 3), the Company terminated several of its major initiatives in its effort to more closely align its cost structure with expected revenue levels and wrote-down certain assets to their estimated fair market value. As a result, the Company recorded asset impairment charges of \$3.3 million in fiscal 2004, \$10.5 million (\$3.6 in continuing operation and \$6.9 million in discontinued operations) in fiscal 2003, and \$31.6 million in fiscal 2002.

Fiscal 2004

In fiscal 2004, the Company recorded an asset impairment charge of \$3.3 million, \$3.2 million of which was due to the write-off of the portion of its complete technology intangible asset (see Note 5 for the Company's policy on testing its intangible assets for impairment) associated with its PC board fabrication business (which was closed in fiscal 2004) and \$110 thousand was associated with the write-down of manufacturing equipment resulting from the closure of a probe card production facility in France.

Fiscal 2003

In fiscal 2003, the Company recorded an asset impairment charge of \$10.5 million. The charge included: \$6.9 million in its flip chip business unit to write-down assets to their estimated fair market value; \$1.7 million associated with manufacturing equipment for a discontinued test product; \$1.2 million associated with manufacturing equipment in a downsized test facility in Dallas, Texas; and \$730 thousand resulting from the write-down of assets that were sold and assets that became obsolete. In the fourth quarter of fiscal 2003, the Company completed the sale of its sawing and hard material blades product lines as well as its polymer product line. As a result of these transactions, the Company recorded a loss of \$5.3 million made up of asset write-offs of \$6.5 million offset by cash proceeds of \$1.2 million.

Fiscal 2002

In fiscal 2002, the Company recorded an asset impairment of \$31.6 million. The charge included: \$16.9 million due to the cancellation of a company-wide integrated information system; \$8.4 million due to the write-off of assets associated with the closure of the substrates operation; \$3.6 million for the write-off of development and license costs of certain engineering and manufacturing software; \$1.4 million of write-offs associated with a closed wire facility in Taiwan; and \$1.3 million related to leasehold improvements at the leased probe card manufacturing facilities in Malaysia and the United States, which were closed.

NOTE 5: GOODWILL AND INTANGIBLE ASSETS

Edgar Filing: KULICKE & SOFFA INDUSTRIES INC - Form POS AM

The intangible assets that are classified as goodwill and those with indefinite lives are not amortized. Intangible assets with determinable lives are amortized over their estimated useful life. The Company performs its annual impairment test at the end of the fourth quarter of each fiscal year, which coincides with the completion of its annual forecasting process. The Company also tests for impairment between its annual tests if a triggering event occurs that may have the effect of reducing the fair value of a reporting unit below its carrying value. When conducting its goodwill impairment analysis, the Company calculates its potential impairment charges based on the two-step test identified in SFAS 142 and using the implied fair value of the respective reporting units. The Company uses the present value of future cash flows from the respective reporting units to determine the implied fair value. The Company's intangible assets other than goodwill are tested for impairment based on undiscounted cash flows, and if impaired, written-down to fair value based on either discounted cash flows or appraised values. The Company's intangible assets are comprised of customer accounts and complete technology in its test interconnect business segment. The Company manages and values its complete technology in the aggregate as one asset group.

In fiscal 2002, the Company reviewed its business and determined that there are five reporting units to be reviewed for impairment in accordance with the standard. The reporting units were: the bonding wire, hub blade, substrate, flip chip and test businesses. The bonding wire and hub blade businesses are included in the Company's packaging materials segment, the

Table of Contents

substrate business is included in the Company's advanced packaging segment and the test business comprises the Company's test segment and the flip chip business unit is included in discontinued operations. There is no goodwill associated with the Company's equipment segment. Upon adoption of SFAS 142 in the first quarter of fiscal 2002, the Company completed the required transitional impairment testing of intangible assets, and based upon those analyses, did not identify any impairment charges as a result of adoption of this standard effective October 1, 2001.

Upon adoption of the standard in fiscal 2002, the Company reclassified \$17.2 million of intangible assets relating to an acquired workforce in the test reporting unit into goodwill and correspondingly reduced goodwill by \$4.9 million for the deferred tax liability established for basis differences of the workforce intangible for income tax and financial reporting purposes. Also in fiscal 2002, the Company reduced goodwill associated with the test reporting unit by \$1.5 million reflecting the settlement of a purchase price dispute with the former owners of Probe Technology and increased goodwill associated with its flip chip reporting unit by \$96 thousand reflecting an increase in the cost to purchase the former joint venture partner's equity share.

In fiscal 2001, 2002 and 2003, the semiconductor industry experienced a severe industry downturn. Due to the prolonged nature of the industry downturn, the Company continually recalibrated its businesses and projections of future operating activities. The Company saw an up-tick in its business in the spring of 2002 and at that time believed it was emerging from the effects of an industry downturn. However, this up-tick in business was not sustained and the Company's business turned back down in the second half of fiscal 2002. By the end of its fiscal 2002, the Company's recalibrated forecasts of future cash flows from its test, hub blades and substrate reporting units were substantially lower than in the beginning of that fiscal year, which led to the closing of the substrate business and an associated write-off of all the substrate intangible assets of \$1.1 million and goodwill impairment charges in the test business of \$72.0 million and in its hub blades business of \$2.3 million. Likewise, by the end of fiscal 2003, the Company's forecast of future cash flows from its flip chip business unit were lower than previous forecasts and resulted in goodwill and assets impairment charges of \$5.7 million (included in discontinued operations) and the subsequent sale of the assets of this business. The Company recorded goodwill impairment charges in the period in which its analysis of future business conditions indicated that the reporting unit's fair value, and the implied value of goodwill, was less than its respective carrying values.

Due to the amount of goodwill associated with the Company's test reporting unit, the Company retained a third party valuation firm to assist management in estimating the test reporting unit's fair value at September 30, 2002. The appraisal was based on discounted cash flows of this reporting unit. The estimated fair value was determined using the Company's weighted average cost of capital. The estimated fair value was then corroborated by comparing the implied multiples applicable to the test reporting unit's projected earnings to guideline companies' forward earnings and based on this it was determined that they were within the range of the guideline companies. The fair value of the Company's test reporting unit at September 30, 2003 was determined in the same manner, however, as it was greater than the carrying value of the reporting unit, there was no goodwill impairment.

The Company also recorded a goodwill impairment charge at September 30, 2002 in its hub blade reporting unit. The Company calculated the fair value of this reporting unit based on the present value of its projected future cashflows. The estimated fair value was determined using the Company's weighted average cost of capital. The triggering event for this impairment charge was the recalibrated forecasts, in the fourth quarter of fiscal 2002, when the Company first determined that the fair value of the hub blade reporting unit was less than its carrying value.

As mentioned above, in September 2003, the Company recorded a goodwill impairment charge of \$5.7 million (included in discontinued operations) at its flip chip business unit. The fair value of this reporting unit was determined using quoted prices from potential purchasers of this reporting unit. The quoted prices were subsequently confirmed upon the sale of the assets of the flip chip reporting unit in February of 2004. The triggering event for this impairment charge was also recalibrated forecasts in the fourth quarter of fiscal 2003, when the Company determined that the fair value of its flip chip reporting unit was less than its current carrying value.

Edgar Filing: KULICKE & SOFFA INDUSTRIES INC - Form POS AM

In fiscal 2004, we performed interim goodwill impairment tests during the quarters ended December 31, 2003 and March 31, 2004 due to the existence of an impairment trigger, which was the losses experienced in our test business. Based on these test results and our annual impairment test, no impairment charge was recorded in fiscal 2004. The fair value of the test reporting unit was based on discounted cash flows of our projected future cash flows from this reporting unit, consistent with the methods used in fiscal 2002 and 2003. We also tested our intangible assets for impairment in the March 2004 quarter, as a result of the sale of certain assets of the test operations and recorded an impairment charge of \$3.2 million associated with the reporting unit's purchased technology intangible asset. See Note 4.

F-15

Table of Contents

The value of goodwill at September 30, 2003 and 2004 was \$81.4 million.

The changes in the value of intangible assets from September 30, 2002 to September 30, 2004 appear below:

	<i>(in thousands)</i>		
	Customer Accounts	Complete Technology	Total Intangible Assets
Intangible balance at September 30, 2002	\$ 33,563	\$ 41,946	\$ 75,509
Amortization	(4,112)	(5,148)	(9,260)
Intangible balance at September 30, 2003	29,451	36,798	66,249
Impairment charge		(3,182)	(3,182)
Amortization	(4,112)	(4,910)	(9,022)
Intangible balance at September 30, 2004	\$ 25,339	\$ 28,706	\$ 54,045

At September 30, 2004 all intangible assets are recorded in the test business segment. The aggregate amortization expense related to these intangible assets for the twelve months ended September 30, 2004 was \$9.0 million compared to \$9.3 million in fiscal 2003 and \$9.9 million in fiscal 2002. The aggregate amortization expense for each of the next five fiscal years is expected to be \$8.8 million.

NOTE 6: COMPREHENSIVE LOSS

At September 30, 2004, the components of Accumulated Other Comprehensive Loss, reflected in the Consolidated Balance Sheet, consisted of the following:

	<i>(in thousands)</i>	
	September 30,	
	2003	2004
Loss from foreign currency translation adjustments	\$ (961)	\$ (516)
Unrealized gain (loss) on investments, net of taxes	(1)	(43)
Minimum pension liability, net of tax	(6,756)	(6,356)
Other comprehensive loss	\$ (7,718)	\$ (6,915)

Table of Contents**NOTE 7: INVESTMENTS**

At September 30, 2004 and 2003, no short-term investments were classified as held-to-maturity. Investments, excluding cash equivalents, classified as available-for-sale, consisted of the following at September 30, 2004 and 2003:

	<i>(in thousands)</i>					
	September 30, 2003			September 30, 2004		
	Fair Value	Unrealized Gains/ (Losses)	Cost Basis	Fair Value	Unrealized Gains/ (Losses)	Cost Basis
Available-for-sale:						
Government and Corporate debt securities	\$ 4,200	\$	\$ 4,200	\$ 31,883	\$ (64)	\$ 31,947
Adjustable rate notes	290		290	293		293
Short-term investments classified as available for sale	\$ 4,490	\$	\$ 4,490	\$ 32,176	\$ (64)	\$ 32,240

In fiscal 2004, the Company purchased \$45.0 million of securities it classified as available-for-sale and sold \$17.3 million of available-for-sale securities. In fiscal 2003, the Company purchased \$8.6 million of securities it classified as available-for-sale and sold \$26.3 million of available-for-sale securities.

NOTE 8: BALANCE SHEET COMPONENTS

Inventories consist of the following:

	<i>(in thousands)</i>	
	September 30,	
	2003	2004
Raw materials and supplies	\$ 29,654	\$ 45,411
Work in process	11,788	12,350
Finished goods	12,279	13,373
	53,721	71,134
Inventory reserves	(15,815)	(13,117)
	\$ 37,906	\$ 58,017

-
- (1) To reduce its cost to procure gold, the Company changed its gold supply financing arrangement in June 2004. As a result, gold is no longer treated as consignment goods and is now reflected and included in the Company's inventory and accounts payable. Accordingly, raw materials inventory at September 30, 2004 includes \$11.2 million of gold inventory and accounts payable includes a corresponding liability of \$11.2 million. Prior to the June 2004 change in the Company's gold supply financing arrangement the Company did not reflect gold in its inventory. This accounted for the majority of the increase in raw materials and supplies inventory from September 2003 to September 2004. The Company's obligation for payment and the price it pays for gold continues to be set at the time and price it ships gold wire to its customers.

Assets held for sale:

In the September 2004 quarter, the Company entered into an agreement to sell land and a building for \$11.2 million. Accordingly, the Company reflected the carrying value of the land and building in the amounts of \$6.1 million at September 30, 2004 and \$6.8 million at September 30, 2003 as assets held for sale.

Table of Contents

Property, Plant and Equipment consist of the following:

	<i>(in thousands)</i>	
	September 30,	
	2003	2004
Land	\$ 161	\$ 1,843
Buildings and building improvements	17,059	11,533
Machinery and equipment	151,674	132,184
Leasehold improvements	14,767	14,736
	<u>183,661</u>	<u>160,296</u>
Accumulated depreciation	(129,222)	(108,862)
	<u>\$ 54,439</u>	<u>\$ 51,434</u>

Accrued expenses consist of the following:

	<i>(in thousands)</i>	
	September 30,	
	2003	2004
Wages and benefits	\$ 17,537	\$ 21,314
Contractual commitments on closed facilities	5,777	3,045
Severance	3,365	2,326
Customer advances	2,549	2,791
Interest on long term debt	3,155	493
Other	9,502	7,691
	<u>\$ 41,885</u>	<u>\$ 37,660</u>

The Company had restricted cash balances of \$3.3 million at September 30, 2004 and \$2.8 million at September 30, 2003. These restricted cash balances were used to support letters of credit.

NOTE 9: DEBT OBLIGATIONS

Long term debt at September 30, 2003 and 2004 consisted of the following:

Type	Fiscal Year of Maturity	Conversion		<i>(in thousands)</i> Outstanding Balance at September 30,	
		Price(1)	Rate	2003	2004
Convertible Subordinated Notes	2006	\$ 19.75	5.25%	\$ 125,000	\$
Convertible Subordinated Notes	2007	\$ 22.90	4.75%	175,000	
Convertible Subordinated Notes	2009	\$ 20.33	0.50%		205,000
Convertible Subordinated Notes	2010	\$ 12.84	1.00%		65,000
Other(2)				338	5,725
				<u>\$ 300,338</u>	<u>\$ 275,725</u>

(1) Subject to adjustment.

(2) Includes a mortgage of \$5.5 million held by a limited liability company which the Company began consolidating into its financial statements at December 31, 2003 in accordance with FIN 46.

In the quarter ended December 31, 2003, the Company issued \$205 million of 0.5% Convertible Subordinated Notes in a private placement to qualified institutional investors. No principal payments are required until maturity on November 30, 2008, the notes bear interest at 0.5% per annum and the notes are convertible into common stock of the Company at \$20.33 per share, subject to adjustment for certain events. The notes are general obligations of the Company and are subordinated to

Table of Contents

all senior debt. The notes rank equally with the Company's 1.0% Convertible Subordinated Notes. There are no financial covenants associated with the notes and there are no restrictions on incurring additional debt or issuing or repurchasing our securities. Interest on the notes is payable on May 30 and November 30 each year.

The Company used the majority of the net proceeds from the issuance of the 0.5% Convertible Subordinated Notes to redeem all of its \$175 million of 4.75% Convertible Subordinated Notes at a redemption price equal to 102.036% of the principal amount of the 4.75% notes. The Company recorded a charge of \$6.2 million associated with the redemption of these notes, \$2.6 million of which was due to the write-off of unamortized note issuance costs and \$3.6 million due to the redemption premium.

In the quarter ended June 30, 2004, the Company issued \$65 million of 1.0% Convertible Subordinated Notes in a private placement to qualified institutional investors. No principal payments are required until maturity on June 30, 2010, the notes bear interest at 1.0% per annum and the notes are convertible into common stock of the Company at \$12.84 per share, subject to adjustment for certain events. The conversion rights of these notes may be terminated on or after June 30, 2006 if the closing price of the Company's common stock has exceeded 140% of the conversion price then in effect for at least 20 trading days within a period of 30 consecutive trading days. The notes are general obligations of the Company and are subordinated to all senior debt. The notes rank equally with the Company's 0.5% Convertible Subordinated Notes. There are no financial covenants associated with the 1.0% notes and there are no restrictions on incurring additional debt or issuing or repurchasing our securities. Interest on the notes is payable on June 30 and December 30 each year.

The Company used the net proceeds from the issuance of the 1.0% Convertible Subordinated Notes along with cash remaining from the issuance of the 0.5% Convertible Subordinated Notes and cash from operations to purchase all of the its 5.25% Convertible Subordinated Notes at a purchase prices between 101.0% and 102.1% of the principal amount of the 5.25% notes. The Company recorded a charge of \$4.4 million associated with the purchase of these notes, \$2.0 million of which was due to the write-off of unamortized note issuance costs and \$2.4 million due to the purchase premium.

NOTE 10: SHAREHOLDERS' EQUITY

Common Stock

In fiscal 2004, the Company's common stock increased by \$4.2 million reflecting the proceeds from the exercise of employee and director stock options, \$991 thousand due to a tax benefit associated with the exercise of the stock options, \$2.3 million due to the issuance of common stock as matching contributions to the Company's 401(k) saving plan, and \$2.8 million due to the Company's contribution of common stock to its pension plan.

Stock Option Plans

The Company has five employee stock option plans (the "Employee Plans") pursuant to which options have been or may be granted at 100% of the market price of the Company's Common Stock on the date of grant. Options granted under the Employee Plans are exercisable at such dates as are determined in connection with their issuance, but not later than ten years after the date of grant. No compensation expense has been recognized related to the employee stock based plans.

Table of Contents

The following summarizes all employee stock option activity for the three years ended September 30, 2004:

(Option amounts in thousands)

September 30,

	2002		2003		2004	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Options outstanding at beginning of period	5,832	\$ 12.16	7,320	\$ 12.92	8,587	\$ 10.57
Granted	2,519	14.64	2,459	3.45	1,929	12.04
Exercised	(160)	9.21	(91)	4.41	(592)	6.84
Terminated or canceled	(871)	13.52	(1,101)	10.48	(1,764)	12.05
Options outstanding at end of period	7,320	12.92	8,587	10.57	8,160	10.90
Options exercisable at end of period	2,922	11.02	4,453	11.84	4,451	11.55

The following table summarizes information concerning currently outstanding and exercisable employee options at September 30, 2004:

(Option amounts in thousands)

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Options Outstanding	Weighted Average Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
\$ 1.44 - \$3.21	1,409	7.4	\$ 2.95	320	\$ 2.95
\$ 3.22 - \$6.41	480	2.4	5.48	434	5.48
\$ 6.42 - \$9.62	663	3.9	6.72	663	6.72
\$ 9.63 - \$12.03	295	6.8	10.43	256	10.25
\$ 12.04 - \$16.03	3,819	6.7	13.01	1,816	13.61
\$ 16.04 - \$19.24	1,482	5.7	16.55	953	16.77
\$19.25 - \$22.44					
\$22.45 - \$28.86					
\$28.87 - \$32.06	12	5.4	32.06	9	32.06
	8,160	6.2	10.90	4,451	11.55

Edgar Filing: KULICKE & SOFFA INDUSTRIES INC - Form POS AM

The Company also maintains two stock option plans for non-officer directors (the Director Plans) pursuant to which options to purchase shares of the Company's Common Stock at an exercise price of 100% of the market price on the date of grant are issued to each non-officer director each year. Options to purchase 510,000 shares at an average exercise price of \$15.19 were outstanding under the Director Plans at September 30, 2004, of which options to purchase 330,500 shares were exercisable. In fiscal 2004, 2003 and 2002, there were 10,000, 8,000 and 6,000 options, respectively, exercised under the Director Plans at an average exercise price of \$3.13, \$2.75 and \$1.69, respectively. No compensation expense has been recognized related to our Director stock based plans.

At September 30, 2004, 12.3 million shares were reserved for issuance and 4.1 million shares were available for grant in connection with the Employee Plans and 920 thousand shares were reserved for issuance and 410 thousand shares were available for grant in connection with a Director Plan.

F-20

Table of Contents**NOTE 11: EMPLOYEE BENEFIT PLANS**

The Company has a non-contributory defined benefit pension plan covering substantially all U.S. employees who were employed on September 30, 1995. The benefits for this plan were based on the employees' years of service and the employees' compensation during the three years before retirement. The Company's funding policy is consistent with the funding requirements of U.S. Federal employee benefit and tax laws. Effective December 31, 1995, the benefits under the Company's pension plan were frozen. As a consequence, accrued benefits no longer change as a result of an employee's length of service or compensation.

Detailed information regarding the Company's defined benefit pension plan is as follows:

	<i>(in thousands)</i>		
	Fiscal Year Ended September 30,		
	2002	2003	2004
Change in benefit obligation:			
Benefit obligations at beginning of year:	\$ 15,359	\$ 17,587	\$ 19,367
Interest cost	1,094	1,122	1,139
Benefit paid	(636)	(678)	(859)
Actuarial (gain) loss	1,770	1,336	20
Benefit obligation at end of year	\$ 17,587	\$ 19,367	\$ 19,667
Change in plan assets:			
Fair value of plan assets at beginning of year:	\$ 11,181	\$ 9,084	\$ 12,398
Actual return on plan assets	(1,612)	2,357	953
Employer contributions	151	1,635	2,824
Benefits paid	(636)	(678)	(859)
Fair value of assets at end of year	\$ 9,084	\$ 12,398	\$ 15,316
Reconciliation of funded status:			
Funded status	\$ (8,503)	\$ (6,968)	\$ (4,351)
Unrecognized actuarial loss	11,530	10,395	9,780
Net amount recognized at year-end	\$ 3,027	\$ 3,427	\$ 5,429
Amount recognized in the statement of financial position consists of:			
Accrued benefit liability	(8,503)	\$ (6,968)	\$ (4,351)
Accumulated other comprehensive income/ Unrecognized net loss	11,530	10,395	9,780
Net amount recognized at year-end	\$ 3,027	\$ 3,427	\$ 5,429
Components of net periodic benefit cost:			
Interest Cost	1,094	\$ 1,122	\$ 1,140
Expected return on plan assets	(875)	(751)	(1,072)
Recognized actuarial loss	560	865	754

Edgar Filing: KULICKE & SOFFA INDUSTRIES INC - Form POS AM

Net periodic benefit cost	\$ 779	\$ 1,236	\$ 822
Weighted-average assumptions as of September 30:			
Discount rate	6.50%	6.00%	6.00%
Expected long-term rate of return on plan assets	8.00%	8.00%	8.00%
Rate of compensation increase	*	*	*

* Not applicable due to the December 31, 1995 benefit freeze

Table of Contents

The Company's pension plan weighted-average asset allocations at September 30, 2004 and 2003 by asset category were as follows:

Asset Category:	Plan Assets at September 30,	
	2003	2004
Equity securities (1)	65%	63%
Debt securities	33%	32%
Other	2%	5%
	100%	100%

- (1) Equity securities include Kulicke and Sofa Industries, Inc. Common stock in the amounts of \$1,627,500 (13%) and \$791,000 (5%) at September 30, 2003 and 2004, respectively.

The Company has adopted an investment policy for its pension plan assets which emphasizes capital appreciation and, secondarily, dividend and interest income. The Company's primary goal is to grow the pension plan's assets for the benefit of the pension plan participants and their beneficiaries. To achieve this, the pension plan retains a professional investment advisor and invests pension plan assets in equity and fixed income securities. The Company's investment policy permits investments in, but not limited to, mutual funds, common stocks, U.S. Government and Agency securities, preferred stock and money market funds and it prohibits investments in, but not limited to, private placements, limited partnerships, venture-Capital Investments and real-estate properties. The company's investment policy also prohibits short selling and margin transactions. The Company has the following target mixes for these asset classes, which are readjusted quarterly, when an asset class weighting deviates from the target mix, with the goal of achieving the required return at a reasonable risk level:

Asset Category:	Target Mix(1)
Equity securities	60%
Debt securities	40%
	100%

- (1) Actual mix may vary from the target mix due to the holding of temporary cash securities to meet short term plan obligations.

Discount rates are established based on prevailing market rates for high-quality fixed-income instruments that, if the pension benefit obligation was settled at the measurement date, would provide the necessary future cash flows to pay the benefit obligations when due. The Company uses long-term historical actual return experiences with consideration to the investment mix of the pension plan's assets and future estimates of long-term investment returns to develop its expected rate of return assumptions used in calculating the net periodic pension cost.

The Company contributed approximately \$2.8 million (based on the market price at the time of contribution) in Company stock to the Plan in Fiscal 2004 and \$1.0 million in fiscal 2003. In fiscal 2005, the Company expects to make a contribution of Company common stock of approximately 10% of the market value of assets at the time of the contribution. Employee contributions are neither required nor permitted.

Table of Contents

Estimated future benefit payments for each of the next five fiscal years and the next five fiscal years in aggregate are as follows:

Fiscal year ending:	
September 30, 2005	\$ 758,049
September 30, 2006	753,520
September 30, 2007	844,873
September 30, 2008	925,777
September 30, 2009	994,252
September 30, 2010 - September 30, 2014	5,495,138

The Company's foreign subsidiaries have retirement plans that are integrated with and supplement the benefits provided by laws of the various countries. They are not required to report nor do they determine the actuarial present value of accumulated benefits or net assets available for plan benefits. On a consolidated basis, pension expense was \$1.9 million, \$2.5 million and \$1.4 million, in fiscal 2004, 2003 and 2002, respectively.

The Company has a 401(k) Employee Incentive Savings Plan. This plan allows for employee contributions and matching Company contributions in varying percentages, depending on employee age and years of service, ranging from 50% to 175% of the employees contributions. The Company's contributions under this plan totaled \$2.3 million, \$2.2 million and \$2.5 million in fiscal 2004, 2003 and 2002, respectively, and were satisfied by contributions of shares of Company common stock, valued at the market price on the date of the matching contribution.

NOTE 12: INCOME TAXES

Income (loss) before income taxes consisted of the following:

	<i>(in thousands)</i>		
	Fiscal Year Ended September 30,		
	2002	2003	2004
United States operations	\$ (270,008)	\$ (56,385)	\$ 25,927
Foreign operations	36,393	9,983	38,151
	\$ (233,615)	\$ (46,402)	\$ 64,078

The provision (benefit) for income taxes include the following:

(in thousands)
Fiscal Year Ended September 30,

Edgar Filing: KULICKE & SOFFA INDUSTRIES INC - Form POS AM

	2002	2003	2004
Current:			
Federal	\$ (7,376)	\$	\$ 579
State	20		663
Foreign	7,109	7,594	5,678
Deferred:			
Federal	32,808		574
Foreign			(108)
	<u>\$ 32,561</u>	<u>\$ 7,594</u>	<u>\$ 7,386</u>

F-23

Table of Contents

The provision (benefit) for income taxes differed from the amount computed by applying the statutory federal income tax rate as follows:

	<i>(in thousands)</i>		
	Fiscal Year Ended September 30,		
	2002	2003	2004
Computed income tax expense (benefit) based on U.S. statutory rate	\$ (84,544)	\$ (24,183)	22,199
Effect of earnings of foreign subsidiaries subject to different tax rates	708	(1,565)	(1,973)
Benefits from Israeli and Singapore Approved Enterprise Zones	(5,890)	706	(4,784)
Tax credit write-offs	12,167		
Effect of Permanent Items			(1,237)
Benefits of net operating loss and tax credit carryforwards and change in valuation allowance	65,327	12,059	(11,185)
Non-deductible goodwill impairment and amortization	22,475		
Foreign dividends	24,968	19,600	3,912
Write off of In-Process Research and Development	(343)		
Effect of revisions of permanent items	(2,456)		
State income tax expense			404
Other, net	149	977	50
	\$ 32,561	\$ 7,594	\$ 7,386

Undistributed earnings of certain foreign subsidiaries for which taxes have not been provided approximate \$54.1 million at September 30, 2004. Such undistributed earnings are considered to be indefinitely reinvested in foreign operations.

Undistributed earnings approximating \$48.3 million are not considered to be indefinitely reinvested in foreign operations. Accordingly, as of September 30, 2004, deferred tax liabilities of \$24.2 million including withholding taxes have been provided.

On October 22, 2004 the U.S. Government passed the American Jobs Creation Act. The Act provides for certain tax benefits including but not limited to the reinvestment of foreign earnings in the United States. The Company is currently evaluating the Act and may or may not benefit from such provisions.

Table of Contents

Deferred income taxes are determined based on the differences between the financial reporting and tax basis of assets and liabilities as measured by the current tax rates. The net deferred tax balance is composed of the tax effects of cumulative temporary differences, as follows:

	<i>(in thousands)</i>	
	September 30,	
	2003	2004
Inventory reserves	\$ 3,343	\$ 3,352
Warranty accrual	339	390
Other accruals and reserves	6,893	8,542
Revenue recognition	125	133
Total short-term deferred tax asset	\$ 10,700	\$ 12,417
Intangible assets	\$ 7,901	\$ 11,091
Domestic tax credit carryforwards	4,847	5,427
Domestic NOL carryforwards	89,811	82,000
Foreign NOL carryforwards	14,435	9,110
	116,994	107,628
Valuation allowance	(100,728)	(97,860)
Total long-term deferred tax asset	\$ 16,266	\$ 9,768
Repatriation of foreign earnings, including foreign withholding taxes	\$ 23,441	\$ 24,230
Depreciable assets	(24)	4,561
Intangible assets	20,845	17,470
Prepaid expenses and other	3,406	482
Total long-term deferred tax liability	\$ 47,668	\$ 46,743
Net long-term deferred liability	\$ 31,402	\$ 36,975

The Company has U.S. net operating loss carryforwards, state net operating loss carryforwards, and tax credit carryforwards of approximately \$186.4 million, \$290.1 million, and \$5.4 million, respectively, that will reduce future taxable income. These carryforwards can be utilized in the future, prior to expiration of certain carryforwards in 2009 through 2023.

In the fourth quarter of fiscal 2002, as part of the income tax provision for the period, the Company recorded a charge of \$65.3 million for the establishment of a valuation allowance against its deferred tax asset consisting primarily of U.S. net operating loss carryforwards. The Company determined that the valuation allowance was required based on its losses, which are given substantially more weight than forecasts of future profitability in the evaluation. No tax benefits were recorded in respect of U.S. net operating losses incurred during fiscal 2003. The Company established a valuation allowance of \$12.1 million in fiscal 2003 against U.S. and foreign net operating losses. In fiscal 2004, the Company reversed the portion of its valuation allowance that was equal to U.S. taxable income. While the Company utilized approximately \$11.2 million of its deferred tax asset relating to U.S. operating loss carryforwards in fiscal 2004, the Company has concluded that the current year positive evidence does not outweigh the negative evidence of recent losses. Until the Company utilizes its remaining U.S. operating loss carryforwards or is reasonably assured of future utilization of the loss carryforwards, its income tax provision will reflect foreign taxation, state taxes and U.S. alternative minimum tax.

The Company also has generated losses in certain foreign jurisdictions totaling approximately \$25.4 million. Similar to the situation with the U.S. NOLs, realization of the benefit associated with these foreign loss carryforwards cannot be assured and a full valuation allowance has been provided against the deferred tax assets associated with these carryforwards.

As a result of committing to certain capital investments and employment levels, income from operations in China, Singapore and Israel are subject to reduced tax rates, and in some cases are wholly exempt from taxes.

In China, we expect to benefit from a 100% tax holiday for five years commencing in the first year in which the Company earns taxable income and then a 50% tax holiday for an additional five years. In addition, the company is also benefiting from a 100% perpetual tax holiday in its local jurisdiction. In connection with certain Singapore operations, we expect to

Table of Contents

benefit from a 100% tax holiday for 10 years effective February 1, 2000. In Israel, we expect to benefit from a reduced tax rate of 10% through fiscal 2008. As a result of these tax holidays, the Company has received tax benefits of approximately \$10 million from fiscal 2002 through fiscal 2004.

NOTE 13: SEGMENT INFORMATION

The Company evaluates performance of its segments and allocates resources to them based on income from operations before interest, allocations of corporate expenses and income taxes.

The Company operates primarily in three industry segments: equipment, packaging materials, and test interconnect solutions. The equipment business segment designs, manufactures and markets capital equipment and related spare parts for use in the semiconductor assembly process. The equipment segment also services, maintains, repairs and upgrades assembly equipment. The packaging materials business segment designs, manufactures and markets consumable packaging materials for use on the equipment the Company markets as well as on competitors' equipment. The packaging materials products have different manufacturing processes, distribution channels and a less volatile revenue pattern than the Company's capital equipment. The test interconnect business segment was established in fiscal 2001, following the acquisitions of Cerprobe and Probe Tech. The business provides a broad range of products used to test semiconductors during wafer fabrication and after they have been assembled and packaged.

The table below presents information about reported segments:

Fiscal Year Ended September 30, 2004	<i>(in thousands)</i>				Consolidated
	Equipment Segment	Packaging Materials Segment	Test Segment	Corporate, Other and Eliminations	
Net revenue	\$ 361,244	\$ 234,690	\$ 121,877	\$	\$ 717,811
Cost of sales	208,862	182,658	95,286		486,806
Gross profit	152,382	52,032	26,591		231,005
Operating costs	59,071	22,171	44,899	18,717	144,858
Resizing				(68)	(68)
Asset impairment			3,293		3,293
Gain on sale of assets		(229)	(85)	(709)	(1,023)
Income (loss) from operations	\$ 93,311	\$ 30,090	\$ (21,516)	\$ (17,940)	\$ 83,945
Segment Assets	\$ 87,771	\$ 122,106	\$ 163,197	\$ 114,618	\$ 487,692
Capital Expenditures	3,583	2,974	3,556	3,292	13,405
Depreciation expense	5,404	3,239	7,476	3,663	19,782

Table of Contents

(in thousands)

Fiscal Year Ended September 30, 2003	Equipment Segment	Packaging Materials Segment	Test Segment	Corporate, Other and Eliminations	Consolidated
Net revenue	\$ 198,447	\$ 174,471	\$ 104,882	\$ 135	\$ 477,935
Cost of sales	129,092	132,779	87,856		349,727
Gross profit	69,355	41,692	17,026	135	128,208
Operating costs	67,490	25,408	41,223	15,587	149,708
Resizing	(175)	(20)	(103)	(177)	(475)
Asset impairment	17	385	3,098	129	3,629
Loss on sale of product line	4,346	911			5,257
Income (loss) from operations	\$ (2,323)	\$ 15,008	\$ (27,192)	\$ (15,404)	\$ (29,911)
Segment Assets	\$ 86,650	\$ 94,466	\$ 166,467	\$ 95,278	\$ 442,861
Capital Expenditures	1,433	4,604	4,067	871	10,975
Depreciation expense	7,797	5,879	9,038	4,045	26,759
Fiscal Year Ended September 30, 2002	Equipment Segment	Packaging Materials Segment	Test Segment	Corporate, Other and Eliminations	Consolidated
Net revenue	\$ 169,469	\$ 157,176	\$ 114,698	\$ 222	\$ 441,565
Cost of sales	142,965	118,080	79,686	14	340,745
Gross profit	26,504	39,096	35,012	208	100,820
Operating costs	85,020	27,242	52,117	32,468	196,847
Resizing	4,781	167	4,715	9,105	18,768
Asset impairment	2,165	2,874	1,245	25,310	31,594
Goodwill impairment		2,295	72,000		74,295
Income (loss) from operations	\$ (65,462)	\$ 6,518	\$ (95,065)	\$ (66,675)	\$ (220,684)
Segment Assets	\$ 119,831	\$ 87,689	\$ 175,480	\$ 155,682	\$ 538,682
Capital Expenditures	5,237	6,020	1,452	7,676	20,385
Depreciation expense	8,898	5,564	10,210	7,671	32,343

Intersegment sales are immaterial. Operating expenses identified as Corporate, Other and Eliminations consist entirely of corporate expenses. Assets identified as Corporate, Other and Eliminations consist of all cash and short-term investments of the Company and corporate income tax assets.

Table of Contents

The Company's market for its products is worldwide. The table below presents destination sales to unaffiliated customers and long-lived assets by country:

	<i>(in thousands)</i>	
	Destination	Long-Lived
Fiscal year ended September 30, 2004	Sales	Assets(1)
Taiwan	\$ 181,374	\$ 1,505
United States	100,657	167,077
Malaysia	91,323	9
Korea	70,790	26
Singapore	70,453	8,619
China	36,612	5,065
Japan	35,190	264
Hong Kong	23,117	12
Philippines	21,086	7
Israel	1,553	7,055
All other	85,656	3,352
	\$ 717,811	\$ 192,991
	\$ 717,811	\$ 192,991
Fiscal year ended September 30, 2003	Destination	Long-Lived
	Sales	Assets(1)
Taiwan	97,378	1,823
United States	\$ 94,790	\$ 181,589
Malaysia	59,641	9
Singapore	46,389	9,066
Korea	40,933	5
Japan	24,107	497
Philippines	19,870	2
Hong Kong	15,060	23
China	13,296	4,765
Israel	2,641	7,316
All other	63,830	3,832
	\$ 477,935	\$ 208,927
	\$ 477,935	\$ 208,927
Fiscal year ended September 30, 2002	Destination	Long-Lived
	Sales	Assets(1)
United States	\$ 115,133	\$ 221,624
Taiwan	110,962	2,198
Malaysia	45,923	31
Singapore	40,389	11,366
Korea	17,846	10
Japan	17,294	846
Philippines	15,167	16
Hong Kong	11,222	40

Edgar Filing: KULICKE & SOFFA INDUSTRIES INC - Form POS AM

Israel	3,135	11,054
All other	64,494	5,173
	<u> </u>	<u> </u>
	\$ 441,565	\$ 252,358
	<u> </u>	<u> </u>

(1) Goodwill, Intangible Assets and Property, Plant and Equipment, net.

NOTE 14: OTHER FINANCIAL DATA

In fiscal 2004, the Company recorded in Selling General and Administrative expenses a variable expense of \$10.3 million for incentive compensation. The Company recorded no incentive compensation expense in fiscal 2003 or 2002. Maintenance and repairs expense totaled \$3.7 million, \$3.6 million and \$4.2 million for fiscal 2004, 2003 and 2002, respectively. Warranty and retrofit expense was \$3.1 million, \$2.5 million and \$3.4 million for fiscal 2004, 2003 and 2002, respectively. Rent expense for fiscal 2004, 2003 and 2002 was \$7.6 million, \$11.2 million and \$11.6 million, respectively.

Table of Contents

The Company recorded other income of \$2.0 million in fiscal 2002 as the result of a cash settlement of an insurance claim associated with a fire in the Company's expendable tool facility.

NOTE 15: EARNINGS PER SHARE

Basic net income (loss) per share (EPS) is calculated using the weighted average number of shares of common stock outstanding during the period. The calculation of diluted net income (loss) per share assumes the exercise of stock options and the conversion of convertible securities to common shares unless the inclusion of these will have an anti-dilutive impact on net income (loss) per share. In addition, in computing diluted net income (loss) per share, if convertible securities are assumed to be converted to common shares, the after-tax amount of interest expense recognized in the period associated with the convertible securities is added back to net income. In the fiscal 2004, \$5.2 million of after-tax interest expense, related to the convertible subordinated notes, was added to the Company's net income to determine the numerator for the diluted earnings per share calculation. In fiscal 2002 and 2003, the exercise of stock options and the conversion of the convertible subordinated notes were not assumed since their conversion to common shares would have an anti-dilutive effect due to the Company's net loss position.

A reconciliation of weighted average shares outstanding basic to the weighted average shares outstanding-diluted appears below:

	<i>(shares in thousands)</i>		
	Fiscal Year Ended September 30,		
	2002	2003	2004
Weighted average shares outstanding - Basic	49,217	49,695	50,746
Potentially dilutive securities:			
Stock options	*	*	1,418
1 % Convertible subordinated notes	NA	NA	1,286
1/2% Convertible subordinated notes	NA	NA	8,509
5 1/4% Convertible subordinated notes	*	*	4,806
4 3/4% Convertible subordinated notes	*	*	1,817
Weighted average shares outstanding - Diluted	49,217	49,695	68,582

* Due to the Company's net loss in fiscal 2002 and 2003, potentially dilutive securities were deemed to be anti-dilutive for the periods. The weighted average number of shares for potentially dilutive securities (convertible notes and employee and director stock options) for fiscal 2002 and 2003 was 15.2 million and 14.9 million, respectively.

NOTE 16: GUARANTOR OBLIGATIONS, COMMITMENTS, CONTINGENCIES AND CONCENTRATIONS

Guarantor Obligations

Edgar Filing: KULICKE & SOFFA INDUSTRIES INC - Form POS AM

The Company has issued standby letters of credit for employee benefit programs, a facility lease, a customs bond and its wire subsidiary has issued a guarantee for payment under its gold supply financing arrangement. The guarantee for the gold supply financing arrangement is secured by the assets of the Company's wire manufacturing subsidiary and contains restrictions on that subsidiary's net worth, ratio of total liabilities to net worth, ratio of EBITDA to interest expense and ratio of current assets to current liabilities.

F-29

Table of Contents

The table below identifies the guarantees under the standby letters of credit as of September 30, 2004:

<u>Nature of guarantee</u>	<u>Term of guarantee</u>	<i>(in thousands)</i> <u>Maximum obligation under guarantee</u>
Security for the Company's gold financing arrangement	Expires June 2006	\$ 17,000
Security deposit for payment of employee health benefits	Expires June 2005	1,710
Security deposit for payment of employee worker compensation benefits	Expires July and October 2005	984
Security deposit for a facility lease	Expires July 2005	300
Security deposit for customs bond	Expires July 2005	100
		<u>\$ 20,094</u>

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

The table below details the activity related to the Company's reserve for product warranties which is included in accrued expenses in the balance sheet at September 30, 2004:

	<i>(in thousands)</i> <u>September 30,</u>	
	<u>2003</u>	<u>2004</u>
Reserve for product warranty at beginning of year	\$ 837	\$ 1,008
Provision for product warranty	2,477	3,092
Product warranty	(2,306)	(3,144)
	<u>\$ 1,008</u>	<u>\$ 956</u>

Commitments and Contingencies

The Company orders inventory components in the normal course of its business. A portion of these orders are non-cancelable and a portion have varying penalties and charges in the event of cancellation. The total amount of the Company's inventory purchase commitments, which do not appear on its balance sheet, as of September 30, 2004 was \$40.1 million. If business conditions were to change and the Company was unable to cancel purchase commitments without penalty or payment its financial condition and operating results could be adversely affected.

In September 2004, the tax authority in Singapore notified the Company that it believes Goods and Services Tax (GST) in the amount of \$3.3 million is owed on the return of gold scrap to the Company s former gold supplier over the period from 1998 to 2004. The Company does not agree with this assessment and has filed an objection. In event the Company is unsuccessful in its appeal, the Company believes it will recover the cost from its former gold supplier. Considering these intentions, no accrual for this contingency has been included in the Company s financial statements. The Company believes that resolution of this matter may take two to three years.

The Company has obligations under various operating leases, primarily for manufacturing and office facilities, which expire periodically through 2012. Minimum rental commitments under these leases (excluding taxes, insurance, maintenance and repairs, which are also paid by the Company), are as follows: \$8.6 million in fiscal 2005; \$5.8 million in fiscal 2006; \$3.8 million in fiscal 2007; \$2.8 million in fiscal 2008; \$2.5 million in 2009 and \$10.6 million thereafter.

From time to time, third parties assert that the Company is, or may be, infringing or misappropriating their intellectual property rights. In such cases, the Company will defend against claims or negotiate licenses where considered appropriate. In addition, some of the Company s customers are parties to litigation brought by the Lemelson Medical, Education and

Table of Contents

Research Foundation Limited Partnership (the Lemelson Foundation), in which the Lemelson Foundation claims that certain manufacturing processes used by those customers infringe patents held by the Lemelson Foundation. The Company has never been named a party to any such litigation. Some customers have requested that the Company indemnify them to the extent their liability for these claims arises from use of the Company's equipment. The Company does not believe that products sold by it infringe valid Lemelson patents. If a claim for contribution was brought against the Company, the Company believes it would have valid defenses to assert and also would have rights to contribution and claims against the Company's suppliers. The Company has not incurred any material liability with respect to the Lemelson claims or any other pending intellectual property claim and the Company does not believe that these claims will materially and adversely affect the Company's business, financial condition or operating results. The ultimate outcome of any infringement or misappropriation claim that might be made, however, is uncertain and the Company cannot assure you that the resolution of any such claim will not materially and adversely affect the Company's business, financial condition and operating results.

Concentrations

Sales to a relatively small number of customers account for a significant percentage of the Company's net sales. In fiscal 2004 and 2003, sales to Advanced Semiconductor Engineering accounted for 17% and 13%, respectively, of the Company's net sales. The Company expects that sales of its products to a limited number of customers will continue to account for a high percentage of net sales for the foreseeable future. At September 30, 2004 and 2003, Advanced Semiconductor Engineering accounted for 16% and 10%, respectively, of total accounts receivable. No other customer accounted for more than 10% of total accounts receivable at September 30, 2004 and 2003. The reduction or loss of orders from a significant customer could adversely affect the Company's business, financial condition, operating results and cash flows.

The Company relies on subcontractors to manufacture to the Company's specifications many of the components or subassemblies used in its products. Certain of the Company's products require components or parts of an exceptionally high degree of reliability, accuracy and performance for which there are only a limited number of suppliers or for which a single supplier has been accepted by the Company as a qualified supplier. If supplies of such components or subassemblies were not available from any such source and a relationship with an alternative supplier could not be promptly developed, shipments of the Company's products could be interrupted and re-engineering of the affected product could be required. Such disruptions could have a material adverse effect on the Company's results of operations.

Table of Contents**NOTE 17: SELECTED QUARTERLY FINANCIAL DATA (unaudited)**

Financial information pertaining to quarterly results of operations follows:

	<i>(in thousands, except per share amounts)</i>				
	First	Second	Third	Fourth	Total
Fiscal Year ended September 30, 2004:	Quarter	Quarter	Quarter	Quarter	
Net sales	\$ 153,869	\$ 221,771	\$ 194,628	\$ 147,543	\$ 717,811
Gross profit	47,362	76,534	65,072	42,037	231,005
Income from operations(1)(2)	12,155	34,409	29,299	8,082	83,945
Income from operations before income taxes	1,778	31,662	25,558	5,080	64,078
Provision for income tax	1,350	1,410	2,877	1,749	7,386
Income (loss) from discontinued FCT operations, net of tax	319	(751)			(432)
Loss on sale of FCT operations		(380)			(380)
Net income	\$ 747	\$ 29,121	\$ 22,681	\$ 3,331	\$ 55,880
Net income per share:					
Basic	\$ 0.01	\$ 0.58	\$ 0.45	\$ 0.07	\$ 1.10
Diluted	\$ 0.01	\$ 0.44	\$ 0.35	\$ 0.05	\$ 0.89
Fiscal Year ended September 30, 2003:	First	Second	Third	Fourth	Total
	Quarter	Quarter	Quarter	Quarter	
Net sales	\$ 107,259	\$ 122,280	\$ 123,782	\$ 124,614	\$ 477,935
Gross profit	28,637	34,231	32,103	33,237	128,208
Loss from operations(1)(2)d	(9,696)	(8,079)	(4,105)	(8,031)	(29,911)
Loss from operations before income taxes	(13,705)	(12,314)	(8,279)	(12,104)	(46,402)
Provision (benefit) for income tax	1,026	3,318	1,350	1,900	7,594
Loss from discontinued operations, net of tax	(2,924)	(3,659)	(1,723)	(14,387)	(22,693)
Net loss	\$ (17,655)	\$ (19,291)	\$ (11,352)	\$ (28,391)	\$ (76,689)
Net loss per share:					
Basic	\$ (0.36)	\$ (0.39)	\$ (0.23)	\$ (0.57)	\$ (1.54)
Diluted	\$ (0.36)	\$ (0.39)	\$ (0.23)	\$ (0.57)	\$ (1.54)

(1) Represents net sales less costs and expenses but before net interest expense and other income.

(2) Results for fiscal 2004 include: a reversal of prior year resizing charges in the second quarter of \$68 thousand (See Note 3); asset impairment charge(reversal) in the second quarter of \$3.3 million (See Note 4); severance associated with workforce reductions in our continuing businesses in the first, second, and fourth quarters of \$600 thousand, \$3.3 million, and \$700 thousand, respectively; and inventory write-downs in the second quarter of \$1.5 million.

Results for fiscal 2003 include: a reversal of prior year resizing charges in the first and fourth quarters of \$205 thousand and \$270 thousand, respectively (See Note 3); asset impairment charges(reversals) in the first, second, third and fourth quarters of \$(121) thousand, \$1.7 million,

Edgar Filing: KULICKE & SOFFA INDUSTRIES INC - Form POS AM

\$1.2 million and \$830 thousand, respectively (See Note 4); severance associated with workforce reductions in our continuing businesses in the first, second, third and fourth quarters of \$1.6 million, \$2.6 million, \$1.0 million and \$400 thousand, respectively; and inventory write-downs in the second, third and fourth quarters of \$1.0 million, \$3.2 million and \$900 thousand, respectively; and a loss on the sale of product lines of \$5.3 million.

F-32

Table of Contents

NOTE 18: SUBSEQUENT EVENT (unaudited)

Sales of land and building:

On November 16, 2004, the Company sold land and a building for \$11.2 million. This sale will result in a pre-tax gain of approximately \$4.6 million, which will be amortized over the eighteen month life of a new lease the Company signed to occupy the sold facility. Future lease payments of \$1.2 million and \$0.6 million are expected to be made in fiscal 2005 and 2006, respectively, for an aggregate of \$1.8 million.

Scotland test facility:

On November 30, 2004, the Company announced to the employees of its East Kilbride, Scotland test facility (Facility) that the Company is considering closing the Facility. For competitive reasons, the Company has been reducing its manufacturing capacity in the U.S. and Europe for several years, while expanding its manufacturing in Asia.

Local labor laws and regulations provide for discussions between the Company and employee representatives at the Facility within the next six weeks in order to explore alternatives to closure. The Company has not finally determined to close the Facility but, if the Facility is closed, the Company expects to incur a charge related to severance costs for approximately 38 employees and asset impairments.

Table of Contents

Table of Contents**PART II****INFORMATION NOT REQUIRED IN PROSPECTUS****ITEM 13. OTHER EXPENSES OF ISSUANCE AND DISTRIBUTION**

The following table sets forth the expenses expected to be incurred by Kulicke & Soffa in connection with the issuance and distribution of the securities registered hereby, other than underwriting fees and discounts. All of these expenses, except for the registration fee, are estimates:

Securities and Exchange Commission Registration Fee	\$ 23,000
Printing and Engraving Expenses	\$ 20,000
Legal Fees and Expenses	\$ 75,000
Accounting Fees and Expenses	\$ 50,000
Trustee's Fees and Expenses	\$ 12,000
Miscellaneous Expenses	\$ 5,000
	<hr/>
Total	\$ 185,000
	<hr/>

ITEM 14. INDEMNIFICATION OF DIRECTORS AND OFFICERS

Our By-laws require us to indemnify any person who was or is a party (or in certain actions is threatened to be made a party) to any threatened, pending or completed proceeding by reason of the fact that he or she is or was a director, officer, employee or agent of the Company or is or was serving at our request as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise against expenses (including attorney's fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by him or her in connection with such proceeding if he or she acted in good faith and in a manner he or she reasonably believed to be in, or not opposed to, our best interests, and, with respect to any criminal proceeding, had no reasonable cause to believe his or her conduct was unlawful. Such indemnification as to expenses is mandatory to the extent the individual is successful on the merits or otherwise in defense of the matter or in defense of any claim, issue or matter therein. Our By-laws provide, however, in the case of an action or suit by or in the right of the Company, that we will not indemnify a director, officer, employee or agent with respect to a matter in which such person has been adjudged liable for negligence or misconduct in the performance of his or her duties to the Company unless a court of common pleas determines that such person is fairly and reasonably entitled to indemnification. Notwithstanding the foregoing, we will indemnify a director (whether or not the action is by or in the right of the Company) unless the director has breached or failed to perform his or her duties and such breach or failure constitutes self-dealing, willful misconduct or recklessness. The determination of whether an individual meets the applicable standard of conduct set forth in our By-laws may be made by disinterested directors, independent legal counsel or our shareholders. In addition, the registration rights agreement pursuant to which the registration statement was filed provides that we and the selling securityholders will indemnify each other and each other's directors, officers and controlling persons against specified liabilities, including liabilities under the Securities Act, or that we will be entitled to contribution from each other in connection with these liabilities.

ITEM 15. RECENT SALES OF UNREGISTERED SECURITIES

Edgar Filing: KULICKE & SOFFA INDUSTRIES INC - Form POS AM

During the three years preceding the filing of this registration statement, we have not sold any of our securities without registration under the Securities Act, except as described below.

On June 30, 2004, we sold \$65 million aggregate principal amount of our 1% convertible subordinated notes due 2010 in a private placement under Section 4(2) of the Securities Act in connection with an offering to certain qualified institutional buyers pursuant to Rule 144A of the Securities Act. We offered the notes through the initial purchaser Merrill Lynch, Pierce, Fenner and Smith Incorporated, who purchased the notes from us at 97.5% of the principal amount of the notes.

On June 15, 2004, we issued and contributed 140,000 shares of our common stock with a fair market value of \$1,502,200 to Reliance Trust Company, as trustee of our pension plan, in a private placement under Section 4(2) of the Securities Act. We contributed and issued the shares of our common stock to the trust to fund certain obligations to the pension plan.

On January 13, 2004, we issued and contributed 90,000 shares of our common stock with a fair market value of \$1,344,600 to Reliance Trust Company, as trustee of our pension plan, in a private placement under Section 4(2) of the Securities Act. We issued and contributed the shares of our common stock to the trust to fund certain obligations to the pension plan.

On December 8, 2003, we sold \$20 million aggregate principal amount of the notes in a private placement under Section 4(2) of the Securities Act in connection with an offering to certain qualified institutional buyers pursuant to Rule 144A of the Securities Act. We offered the notes through the initial purchaser Deutsche Bank Securities, Inc., who purchased the notes from us at 97.5% of the principal amount of the notes, plus accrued interest.

On November 26, 2003, we sold \$185 million aggregate principal amount of the notes in a private placement under Section 4(2) of the Securities Act in connection with an offering to certain qualified institutional buyers pursuant to Rule 144A of the Securities Act. We offered the notes through the initial purchaser Deutsche Bank Securities, Inc., who purchased the notes from us at 97.5% of the principal amount of the notes, plus accrued interest.

On June 12, 2003, we issued and contributed 150,000 shares of our common stock with a fair market value of \$987,000 to Reliance Trust Company, as trustee of our pension plan, in a private placement under Section 4(2) of the Securities Act. We issued and contributed the shares of our common stock to the trust to fund certain obligations to the pension plan.

Table of Contents**ITEM 16. Exhibits and Financial Statement Schedules**

(a) The following exhibits are furnished with this registration statement.

EXHIBIT

NUMBER	ITEM
2(i)	Agreement and Plan of Merger, dated as of October 11, 2000, by and among Kulicke and Soffa Industries, Inc., Cardinal Merger Sub., Inc. and Cerprobe Corporation is incorporated herein by reference from Exhibit D(1) to the Company's Form TO filed on October 25, 2000.
2(ii)	Asset Purchase Agreement, dated as of February 6, 2004, between Flip Chip International, LLC and Flip Chip Technologies, LLC, filed as Exhibit 2.1 to the Company's Form 10-Q for the quarterly period ended March 31, 2004, is incorporated herein by reference.
3(i)	The Company's Form of Amended and Restated Articles of Incorporation dated June 14, 2002, filed as Exhibit 3.1 to the Company's quarterly report on Form 10-Q for the quarterly period ended June 30, 2002, is incorporated herein by reference.
3(ii)	The Company's By-Laws, as amended and restated on June 26, 1990, filed as Exhibit 3.(ii) to the Company's Form 8-A12G/A dated September 11, 1995, SEC file No. 000-00121, are incorporated herein by reference.
4(i)	Specimen Common Share Certificate of Kulicke and Soffa Industries, Inc., filed as Exhibit 4 to the Company's Form 8-A12G/A dated September 11, 1995, SEC file number 000-00121, is incorporated herein by reference.
4(ii)	Indenture dated as of November 26, 2003 between the Company and J.P. Morgan Trust Company, National Association, as Trustee, filed as Exhibit 4.1 to the Company's Form 8-K dated December 5, 2003, is incorporated herein by reference.
4(iii)	Registration Rights Agreement dated as of November 26, 2003, between the Company and Deutsche Bank Securities Inc. as Initial Purchaser, filed as Exhibit 4.2 to the Company's Form 8-K dated December 5, 2003, is incorporated herein by reference.
4(iv)	Indenture dated as of June 30, 2004 between the Company and J.P. Morgan Trust Company, National Association, as Trustee, filed as Exhibit 4.1 to the Company's quarterly report on Form 10-Q for the quarterly period ended June 30, 2004, is incorporated herein by reference.
4(v)	Registration Rights Agreement dated as of June 30, 2004, between the Company and Merrill Lynch, Pierce, Fenner & Smith Incorporated, as Initial Purchaser, filed as Exhibit 4.2 to the Company's quarterly report on Form 10-Q for the quarterly period ended June 30, 2004, is incorporated herein by reference.
4(vi) ⁽¹⁾	Form of senior debt securities indenture.
4(vii) ⁽¹⁾	Form of senior subordinated debt securities indenture.
4(viii) ⁽¹⁾	Form of subordinated debt securities indenture.
4(ix) ⁽¹⁾	Form of any senior debt security.
4(x) ⁽¹⁾	Form of any senior subordinated debt security.
4(xi) ⁽¹⁾	Form of any subordinated debt security.
4(xii) ⁽³⁾	The form of any certificate of designation with respect to any preferred stock.
4(xiii) ⁽³⁾	Form of unit agreement.
4(xiv) ⁽³⁾	Form of debt warrant agreement for warrants sold alone, including form of warrant.
4(xv) ⁽³⁾	Form of debt warrant agreement for warrants sold attached to debt securities, including form of warrant.
4(xvi) ⁽³⁾	Form of equity warrant agreement for warrants sold alone, including form of warrant.
5 ⁽¹⁾	Opinion of Drinker Biddle & Reath LLP.

Table of Contents

EXHIBIT

NUMBER	ITEM
10(i)	The Company's 1988 Employee Incentive Stock Option and Non-Qualified Stock Option Plan (as amended and restated effective March 21, 2003), filed as Exhibit 10(i) to the Company's Annual Report on Form 10-K for the year ended September 30, 2003 is incorporated herein by reference.*
10(ii)	The Company's 1988 Non-Qualified Stock Option Plan for Non-Officer Directors (as amended and restated effective February 9, 1999), filed as Exhibit 10(vi) to the Company's Annual Report on Form 10-K for the year ended September 30, 1999, is incorporated by reference.*
10(iii)	The Company's 1994 Employee Incentive Stock Option and Non-Qualified Stock Option Plan (as amended and restated effective March 21, 2003), filed as Exhibit 10(iii) to the Company's Annual Report on Form 10-K for the year ended September 30, 2003 is incorporated herein by reference.*
10(iv)	2004 Israeli Addendum to the Company's 1994 Employee Incentive Stock Option and Non-Qualified Stock Option Plan (as amended and restated effective March 21, 2003), filed as Exhibit 10(iv) to the Company's Post-Effective Amendment No. 4 on Form S-1 to the Registration Statement on Form S-3 filed December 14, 2004, is incorporated herein by reference.*
10(v)	The Company's 1997 Non-Qualified Stock Option Plan for Non-Employee Directors (as amended and restated effective March 21, 2003), filed as Exhibit 10(vi) to the Company's Annual Report on Form 10-K for the year ended September 30, 2003 is incorporated herein by reference.*
10(vi)	The Company's 1998 Employee Incentive Stock Option and Non-Qualified Stock Option Plan (as amended and restated effective March 21, 2003), filed as Exhibit 10(ix) to the Company's Annual Report on Form 10-K for the year ended September 30, 2003 is incorporated herein by reference.*
10(vii)	2004 Israeli Addendum to the Company's 1998 Employee Incentive Stock Option and Non-Qualified Stock Option Plan (as amended and restated effective March 21, 2003), filed as Exhibit 10(vii) to the Company's Post-Effective Amendment No. 4 on Form S-1 to the Registration Statement on Form S-3 filed December 14, 2004, is incorporated herein by reference.*
10(viii)	The Company's 1999 Nonqualified Employee Stock Option Plan (as amended and restated effective March 21, 2003), filed as Exhibit 10(xv) to the Company's Annual Report on Form 10-K for the year ended September 30, 2003 is incorporated herein by reference.*
10(ix)	2004 Israeli Addendum to the Company's 1999 Nonqualified Employee Stock Option Plan (as amended and restated effective March 21, 2003), filed as Exhibit 10(ix) to the Company's Post-Effective Amendment No. 4 on Form S-1 to the Registration Statement on Form S-3 filed December 14, 2004, is incorporated herein by reference.*
10(x)	Form of Termination of Employment Agreement signed by Mr. Kulicke (Section 2(a) - 30 months), and Messrs. Carson, Jacobi, Lendner, Salmons, Sawachi, Belani, Griffing, Chylak, Cristallo, Torton, Amweg, Anderson, Hartigan, Kish, Mak, Rheault, Perchick and Beatson (Section 2(a) - 18 months), filed as Exhibit 10(a) to the Company's Quarterly Report on Form 10-Q for the quarterly period ended December 31, 2000, is incorporated herein by reference.*
10(xi)	The Company's 2001 Employee Incentive Stock Option and Non-Qualified Stock Option Plan (as amended and restated effective March 21, 2003), filed as Exhibit 10(xix) to the Company's Annual Report on Form 10-K for the year ended September 30, 2003 is incorporated herein by reference.*
10(xii)	2004 Israeli Addendum to the Company's 2001 Employee Incentive Stock Option and Non-Qualified Stock Option Plan (as amended and restated effective March 21, 2003), filed as Exhibit 10(xii) to the Company's Post-Effective Amendment No. 4 on Form S-1 to the Registration Statement on Form S-3 filed December 14, 2004, is incorporated herein by reference.*
10(xiii)	The Company's Officer Incentive Compensation Plan, effective October 1, 2003, filed as Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended December 31, 2003, is incorporated herein by reference.*

Table of Contents

EXHIBIT

NUMBER	ITEM
10(xiv)	First Amendment to the Company's Officer Incentive Compensation Plan, effective October 1, 2003, filed as Exhibit 10(x) to the Company's Registration Statement on Form S-1 filed September 30, 2004, is incorporated herein by reference.*
10(xv) ⁽²⁾	Sale and Buyback of Fine Metal Agreement dated June 21, 2004 between Kulicke & Soffa (SEA) PTE LTD and AGR Matthey, filed as Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2004 is incorporated herein by reference.
10(xvi)	Guarantee Issuance Facility Agreement dated June 21, 2004 between Kulicke & Soffa (SEA) PTE LTD, Natexis Banques Populaires, Singapore Branch and Arab Bank plc, Singapore Branch, filed as Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2004 is incorporated herein by reference.
10(xvii)	Debenture, incorporating Fixed and Floating Charges and Assignment of Insurances dated June 21, 2004 between Kulicke & Soffa (SEA) PTE LTD and Natexis Banques Populaires, Singapore Branch, filed as Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2004 is incorporated herein by reference.
10(xviii)	Agreement to Sell and Purchase Real Estate, dated August 25, 2004, as amended on September 15, 2004, between the Company and Good Mac Realty Partners, L.P, filed as Exhibit 10(xiv) to the Company's Registration Statement on Form S-1 filed September 30, 2004, is incorporated herein by reference.
12	Computation of Ratio of Earnings to Fixed Charges, filed as Exhibit 12 to the Company's Post-Effective Amendment No. 4 on Form S-1 to the Registration Statement on Form S-3 filed December 14, 2004, is incorporated herein by reference.
21	Subsidiaries of the Company, filed as Exhibit 21 to the Company's Post-Effective Amendment No. 4 on Form S-1 to the Registration Statement on Form S-3 filed December 14, 2004, is incorporated herein by reference.
23(i)	Consent of PricewaterhouseCoopers LLP (Independent Registered Public Accounting Firm).
23(ii) ⁽¹⁾	Consent of Drinker Biddle & Reath LLP (included in Exhibit 5).
24(i) ⁽¹⁾	Power of Attorney.
24(ii) ⁽¹⁾	Certified Resolutions.
25(i) ⁽¹⁾	Statement of Eligibility on Form T-1 under the Trust Indenture Act of 1939, as amended, of LaSalle Bank National Association, as trustee under the indenture with respect to the senior debt securities.
25(ii) ⁽¹⁾	Statement of Eligibility on Form T-1 under the Trust Indenture Act of 1939, as amended, of LaSalle Bank National Association, as trustee under the indenture with respect to the senior subordinated debt securities.
25(iii) ⁽¹⁾	Statement of Eligibility on Form T-1 under the Trust Indenture Act of 1939, as amended, of LaSalle Bank National Association, as trustee under the indenture with respect to the senior subordinated debt securities.
25 ⁽¹⁾	Form T-1 Statement of Eligibility of Trustee for Indenture under the Trust Indenture Act of 1939.

* Indicates a Management Contract or Compensatory Plan.

(1) Previously filed.

(2) Portions of this exhibit have been omitted based on a request for confidential treatment submitted to the U.S. Securities and Exchange Commission. The omitted portions have been filed separately with the Commission.

(3) To be filed as an exhibit, if appropriate.

(b) The following financial statement schedule is furnished on page II-7 of this registration statement:

Schedule II Valuation and Qualifying Accounts

All other schedules are omitted because they are not applicable or the required information is shown in the financial statements or notes thereto.

II-4

Table of Contents

ITEM 17. Undertakings

(a) The undersigned registrant hereby undertakes:

(1) To file, during any period in which offers or sales are being made, a post-effective amendment to this registration statement:

(i) To include any prospectus required by section 10(a)(3) of the Securities Act of 1933;

(ii) To reflect in the prospectus any facts or events arising after the effective date of the registration statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate, represent a fundamental change set forth in the information in the registration statement. Notwithstanding the foregoing, any increase or decrease in volume of securities offered (if the total dollar of securities offered would not exceed that which was registered) and any deviation from the low or high end of the estimated maximum offering range may be reflected in the form of prospectus filed with the Commission pursuant to Rule 424(b) if, in the aggregate, the changes in volume and price represent no more than a 20 percent change in the maximum aggregate offering price set forth in the Calculation of Registration Fee table in the effective registration statement;

(iii) To include any material information with respect to the plan of distribution not previously disclosed in the registration statement or any material change to such information in the registration statement.

(2) That, for the purpose of determining any liability under the Securities Act of 1933, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial *bona fide* offering thereof.

(3) To remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering.

(b) Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted against the registrant by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.

(c) The undersigned registrant hereby further undertakes that:

Edgar Filing: KULICKE & SOFFA INDUSTRIES INC - Form POS AM

(1) For purposes of determining any liability under the Securities Act of 1933, the information omitted from the form of prospectus filed as part of this Registration Statement in reliance upon Rule 430A and contained in a form of prospectus filed by the Registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act shall be deemed to be part of this Registration Statement as of the time it was declared effective; and

(2) For purposes of determining any liability under the Securities Act of 1933, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial *bona fide* offering thereof.

II-5

Table of Contents**SIGNATURES**

Pursuant to the requirements of the Securities Act of 1933, the registrant has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the city of Willow Grove, Commonwealth of Pennsylvania, on January 7, 2005.

KULICKE AND SOFFA INDUSTRIES, INC.

By: /s/ C. Scott Kulicke
C. Scott Kulicke
Chairman and Chief Executive Officer

Pursuant to the requirements of the Securities Act of 1933, this registration statements has been signed by the following persons in the capacities and on the dates indicated.

<u>NAMES</u>	<u>CAPACITY</u>	<u>DATE</u>
<u>/s/ C. Scott Kulicke</u>	Chairman and Chief Executive Officer	January 7, 2005
C. Scott Kulicke	(Principal Executive Officer)	
<u>/s/ Maurice E. Carson</u>	Vice President and Chief Financial	January 7, 2005
Maurice E. Carson	Officer (Principal Financial and Accounting Officer)	
<u>Brian R. Bachman</u>	Director	
<u>*s/ Philip V. Gerdine</u>	Director	January 7, 2005
Philip V. Gerdine		
<u>*s/ John A. O Steen</u>	Director	January 7, 2005
John A. O Steen		
<u>*s/ Allison F. Page</u>	Director	January 7, 2005
Allison F. Page		
<u>*s/ MacDonell Roehm, Jr.</u>	Director	January 7, 2005

Edgar Filing: KULICKE & SOFFA INDUSTRIES INC - Form POS AM

MacDonell Roehm, Jr.

Director

Barry Waite

*s/ C. William Zadel

Director

January 7, 2005

C. William Zadel

Power of Attorney:

*By: /s/ C. Scott Kulicke

C. Scott Kulicke

II-6

Table of Contents**KULICKE AND SOFFA INDUSTRIES, INC.****Schedule II-Valuation and Qualifying Accounts***(in thousands)*

	Balance at beginning of period	Charged to costs and expenses	Other Additions (describe)	Deductions (describe)	Balance at end of period
Year ended September 30, 2002					
Allowance for doubtful accounts	\$ 6,242	\$ 158	\$	\$ 367(1)	\$ 6,033
Inventory reserve	\$ 29,109	\$ 14,362	\$	\$ 18,624(2)	\$ 24,847
Valuation allowance for deferred taxes	\$ 20,724	\$ 66,025(3)	\$	\$	\$ 86,749
Year ended September 30, 2003					
Allowance for doubtful accounts	\$ 6,033	\$ 519	\$	\$ 623(1)	\$ 5,929
Inventory reserve	\$ 24,847	\$ 3,490	\$ (2,930)(4)	\$ 9,592(2)	\$ 15,815
Valuation allowance for deferred taxes	\$ 86,749	\$ 13,979(3)	\$	\$	\$ 100,728
Year ended September 30, 2004					
Allowance for doubtful accounts	\$ 5,929	\$ (850)	\$	\$ 1,433(1)	\$ 3,646
Inventory reserve	\$ 15,815	\$ 3,566	\$	\$ 6,264(2)	\$ 13,117
Valuation allowance for deferred taxes	\$ 100,728	\$ (11,185)(5)	\$ 8,317(6)	\$	\$ 97,860

- (1) Bad debts written off.
- (2) Disposal of excess and obsolete inventory.
- (3) Reflects the increase in the valuation allowance associated with the Company's U.S. net operating losses and tax credit carryforwards.
- (4) Reflects the sales of the assets of the Company's sawing and hub blades products lines.
- (5) Reflects the decrease in the valuation allowance associated with the Company's U.S. net operating losses.
- (6) Reflects adjustment of cumulative timing differences.

Table of Contents

EXHIBIT INDEX

EXHIBIT

NUMBER	ITEM
2(i)	Agreement and Plan of Merger, dated as of October 11, 2000, by and among Kulicke and Soffa Industries, Inc., Cardinal Merger Sub., Inc. and Cerprobe Corporation is incorporated herein by reference from Exhibit D(1) to the Company's Form TO filed on October 25, 2000.
2(ii)	Asset Purchase Agreement, dated as of February 6, 2004, between Flip Chip International, LLC and Flip Chip Technologies, LLC, filed as Exhibit 2.1 to the Company's Form 10-Q for the quarterly period ended March 31, 2004, is incorporated herein by reference.
3(i)	The Company's Form of Amended and Restated Articles of Incorporation dated June 14, 2002, filed as Exhibit 3.1 to the Company's quarterly report on Form 10-Q for the quarterly period ended June 30, 2002, is incorporated herein by reference.
3(ii)	The Company's By-Laws, as amended and restated on June 26, 1990, filed as Exhibit 3.(ii) to the Company's Form 8-A12G/A dated September 11, 1995, SEC file No. 000-00121, are incorporated herein by reference.
4(i)	Specimen Common Share Certificate of Kulicke and Soffa Industries, Inc., filed as Exhibit 4 to the Company's Form 8-A12G/A dated September 11, 1995, SEC file number 000-00121, is incorporated herein by reference.
4(ii)	Indenture dated as of November 26, 2003 between the Company and J.P. Morgan Trust Company, National Association, as Trustee, filed as Exhibit 4.1 to the Company's Form 8-K dated December 5, 2003, is incorporated herein by reference.
4(iii)	Registration Rights Agreement dated as of November 26, 2003, between the Company and Deutsche Bank Securities Inc. as Initial Purchaser, filed as Exhibit 4.2 to the Company's Form 8-K dated December 5, 2003, is incorporated herein by reference.
4(iv)	Indenture dated as of June 30, 2004 between the Company and J.P. Morgan Trust Company, National Association, as Trustee, filed as Exhibit 4.1 to the Company's quarterly report on Form 10-Q for the quarterly period ended June 30, 2004, is incorporated herein by reference.
4(v)	Registration Rights Agreement dated as of June 30, 2004, between the Company and Merrill Lynch, Pierce, Fenner & Smith Incorporated, as Initial Purchaser, filed as Exhibit 4.2 to the Company's quarterly report on Form 10-Q for the quarterly period ended June 30, 2004, is incorporated herein by reference.
4(vi) ⁽¹⁾	Form of senior debt securities indenture.
4(vii) ⁽¹⁾	Form of senior subordinated debt securities indenture.
4(viii) ⁽¹⁾	Form of subordinated debt securities indenture.
4(ix) ⁽¹⁾	Form of any senior debt security.
4(x) ⁽¹⁾	Form of any senior subordinated debt security.
4(xi) ⁽¹⁾	Form of any subordinated debt security.
4(xii) ⁽³⁾	The form of any certificate of designation with respect to any preferred stock.
4(xiii) ⁽³⁾	Form of unit agreement.
4(xiv) ⁽³⁾	Form of debt warrant agreement for warrants sold alone, including form of warrant.
4(xv) ⁽³⁾	Form of debt warrant agreement for warrants sold attached to debt securities, including form of warrant.
4(xvi) ⁽³⁾	Form of equity warrant agreement for warrants sold alone, including form of warrant.
5 ⁽¹⁾	Opinion of Drinker Biddle & Reath LLP.

Table of Contents

EXHIBIT

NUMBER	ITEM
10(i)	The Company's 1988 Employee Incentive Stock Option and Non-Qualified Stock Option Plan (as amended and restated effective March 21, 2003), filed as Exhibit 10(i) to the Company's Annual Report on Form 10-K for the year ended September 30, 2003 is incorporated herein by reference.*
10(ii)	The Company's 1988 Non-Qualified Stock Option Plan for Non-Officer Directors (as amended and restated effective February 9, 1999), filed as Exhibit 10(vi) to the Company's Annual Report on Form 10-K for the year ended September 30, 1999, is incorporated by reference.*
10(iii)	The Company's 1994 Employee Incentive Stock Option and Non-Qualified Stock Option Plan (as amended and restated effective March 21, 2003), filed as Exhibit 10(iii) to the Company's Annual Report on Form 10-K for the year ended September 30, 2003 is incorporated herein by reference.*
10(iv)	2004 Israeli Addendum to the Company's 1994 Employee Incentive Stock Option and Non-Qualified Stock Option Plan (as amended and restated effective March 21, 2003), filed as Exhibit 10(iv) to the Company's Post-Effective Amendment No. 4 on Form S-1 to the Registration Statement on Form S-3 filed December 14, 2004, is incorporated herein by reference.*
10(v)	The Company's 1997 Non-Qualified Stock Option Plan for Non-Employee Directors (as amended and restated effective March 21, 2003), filed as Exhibit 10(vi) to the Company's Annual Report on Form 10-K for the year ended September 30, 2003 is incorporated herein by reference.*
10(vi)	The Company's 1998 Employee Incentive Stock Option and Non-Qualified Stock Option Plan (as amended and restated effective March 21, 2003), filed as Exhibit 10(ix) to the Company's Annual Report on Form 10-K for the year ended September 30, 2003 is incorporated herein by reference.*
10(vii)	2004 Israeli Addendum to the Company's 1998 Employee Incentive Stock Option and Non-Qualified Stock Option Plan (as amended and restated effective March 21, 2003), filed as Exhibit 10(vii) to the Company's Post-Effective Amendment No. 4 on Form S-1 to the Registration Statement on Form S-3 filed December 14, 2004, is incorporated herein by reference.*
10(viii)	The Company's 1999 Nonqualified Employee Stock Option Plan (as amended and restated effective March 21, 2003), filed as Exhibit 10(xv) to the Company's Annual Report on Form 10-K for the year ended September 30, 2003 is incorporated herein by reference.*
10(ix)	2004 Israeli Addendum to the Company's 1999 Nonqualified Employee Stock Option Plan (as amended and restated effective March 21, 2003), filed as Exhibit 10(ix) to the Company's Post-Effective Amendment No. 4 on Form S-1 to the Registration Statement on Form S-3 filed December 14, 2004, is incorporated herein by reference.*
10(x)	Form of Termination of Employment Agreement signed by Mr. Kulicke (Section 2(a)- 30 months), and Messrs. Carson, Jacobi, Lendner, Salmons, Sawachi, Belani, Griffing, Chylak, Cristallo, Torton, Amweg, Anderson, Hartigan, Kish, Mak, Rheault, Perchick and Beatson (Section 2(a) - 18 months), filed as Exhibit 10(a) to the Company's Quarterly Report on Form 10-Q for the quarterly period ended December 31, 2000, is incorporated herein by reference.*
10(xi)	The Company's 2001 Employee Incentive Stock Option and Non-Qualified Stock Option Plan (as amended and restated effective March 21, 2003), filed as Exhibit 10(xix) to the Company's Annual Report on Form 10-K for the year ended September 30, 2003 is incorporated herein by reference.*
10(xii)	2004 Israeli Addendum to the Company's 2001 Employee Incentive Stock Option and Non-Qualified Stock Option Plan (as amended and restated effective March 21, 2003), filed as Exhibit 10(xii) to the Company's Post-Effective Amendment No. 4 on Form S-1 to the Registration Statement on Form S-3 filed December 14, 2004, is incorporated herein by reference.*
10(xiii)	The Company's Officer Incentive Compensation Plan, effective October 1, 2003, filed as Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended December 31, 2003, is incorporated herein by reference.*

Table of Contents

**EXHIBIT
NUMBER**

ITEM

10(xiv)	First Amendment to the Company's Officer Incentive Compensation Plan, effective October 1, 2003, filed as Exhibit 10(x) to the Company's Registration Statement on Form S-1 filed September 30, 2004, is incorporated herein by reference.*
10(xv) ⁽²⁾	Sale and Buyback of Fine Metal Agreement dated June 21, 2004 between Kulicke & Soffa (SEA) PTE LTD and AGR Matthey, filed as Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2004 is incorporated herein by reference.
10(xvi)	Guarantee Issuance Facility Agreement dated June 21, 2004 between Kulicke & Soffa (SEA) PTE LTD, Natexis Banques Populaires, Singapore Branch and Arab Bank plc, Singapore Branch, filed as Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2004 is incorporated herein by reference.
10(xvii)	Debenture, incorporating Fixed and Floating Charges and Assignment of Insurances dated June 21, 2004 between Kulicke & Soffa (SEA) PTE LTD and Natexis Banques Populaires, Singapore Branch, filed as Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2004 is incorporated herein by reference.
10(xviii)	Agreement to Sell and Purchase Real Estate, dated August 25, 2004, as amended on September 15, 2004, between the Company and Good Mac Realty Partners, L.P, filed as Exhibit 10(xiv) to the Company's Registration Statement on Form S-1 filed September 30, 2004, is incorporated herein by reference.
12	Computation of Ratio of Earnings to Fixed Charges, filed as Exhibit 12 to the Company's Post-Effective Amendment No. 4 on Form S-1 to the Registration Statement on Form S-3 filed December 14, 2004, is incorporated herein by reference.
21	Subsidiaries of the Company, filed as Exhibit 21 to the Company's Post-Effective Amendment No. 4 on Form S-1 to the Registration Statement on Form S-3 filed December 14, 2004, is incorporated herein by reference.
23(i)	Consent of PricewaterhouseCoopers LLP (Independent Registered Public Accounting Firm).
23(ii) ⁽¹⁾	Consent of Drinker Biddle & Reath LLP (included in Exhibit 5).
24(i) ⁽¹⁾	Power of Attorney.
24(ii) ⁽¹⁾	Certified Resolutions.
25(i) ⁽¹⁾	Statement of Eligibility on Form T-1 under the Trust Indenture Act of 1939, as amended, of LaSalle Bank National Association, as trustee under the indenture with respect to the senior debt securities.
25(ii) ⁽¹⁾	Statement of Eligibility on Form T-1 under the Trust Indenture Act of 1939, as amended, of LaSalle Bank National Association, as trustee under the indenture with respect to the senior subordinated debt securities.
25(iii) ⁽¹⁾	Statement of Eligibility on Form T-1 under the Trust Indenture Act of 1939, as amended, of LaSalle Bank National Association, as trustee under the indenture with respect to the subordinated debt securities.
25 ⁽¹⁾	Form T-1 Statement of Eligibility of Trustee for Indenture under the Trust Indenture Act of 1939.

* Indicates a Management Contract or Compensatory Plan.

(1) Previously filed.

(2) Portions of this exhibit have been omitted based on a request for confidential treatment submitted to the U.S. Securities and Exchange Commission. The omitted portions have been filed separately with the Commission.

(3) To be filed as an exhibit, if appropriate.