KULICKE & SOFFA INDUSTRIES INC
Form 10-Q
May 06, 2010

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

FORM 10-Q

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

For the quarterly period ended April 3, 2010

OR

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

For the transition period from to ..

Commission File No. 0-121

KULICKE AND SOFFA INDUSTRIES, INC.
(Exact name of registrant as specified in its charter)

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

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

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

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

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

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

Accelerated filer x Non-accelerated filer ¨

Large accelerated filer ¨		Smaller reporting company ¨
	(Do not check if a smaller reporting company)	

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

As of May 3, 2010, there were 70,121,905 shares of the Registrant's Common Stock, no par value, outstanding.

KULICKE AND SOFFA INDUSTRIES, INC.

FORM 10 – Q

April 3, 2010

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PART I. - FINANCIAL INFORMATION
Item 1. – Financial Statements

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

	As of			
		October 3, 2009 *		April 3, 2010
ASSETS				
Current assets:				
Cash and cash equivalents	$	144,560	$	184,081
Restricted cash		281		216
Accounts and notes receivable, net of allowance for doubtful accounts of $1,378 and $999, respectively		95,779		108,015
Inventories, net		41,489		57,100
Prepaid expenses and other current assets		11,566		13,090
Deferred income taxes		1,786		1,798
Total current assets		295,461		364,300
Property, plant and equipment, net		36,046		30,385
Goodwill		26,698		26,698
Intangible assets		48,656		43,884
Other assets		5,774		7,130
Total assets	$	412,635	$	472,397
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities:				
Current portion of long-term debt	$	48,964	$	48,964
Accounts payable		39,908		58,602
Accrued expenses and other current liabilities		32,576		31,737
Income taxes payable		1,612		630
Total current liabilities		123,060		139,933
Long-term debt		92,217		95,287
Deferred income taxes		16,282		16,742
Other liabilities		10,273		9,673
Total liabilities		241,832		261,635
Commitments and contingencies (Note 12)				
Shareholders' equity:				
Preferred stock, no par value:				
Authorized 5,000 shares; issued - none		-		-
Common stock, no par value:				
Authorized 200,000 shares; issued 74,370 and 74,814 respectively; outstanding 69,415 and 69,860 shares, respectively		413,092		416,699
Treasury stock, at cost, 4,954 shares		(46,356)		(46,356)

Accumulated deficit		(197,812)		(160,814)
Accumulated other comprehensive income		1,879		1,233
Total shareholders' equity		170,803		210,762
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$	412,635	$	472,397

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

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

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

	Three months ended		Six months ended	
	March 28, 2009 *	April 3, 2010	March 28, 2009 *	April 3, 2010
Net revenue	$ 25,232	$ 153,838	$ 62,648	$ 282,253
Cost of sales	17,187	86,066	40,675	158,108
Gross profit	8,045	67,772	21,973	124,145
Selling, general and administrative	27,836	30,470	57,688	55,696
Research and development	13,258	13,980	28,658	27,141
Impairment of goodwill	2,709	-	2,709	-
Total operating expenses	43,803	44,450	89,055	82,837
Income (loss) from operations	(35,758)	23,322	(67,082)	41,308
Interest income	193	89	947	186
Interest expense	(2,024)	(2,105)	(4,103)	(4,188)
Gain on extinguishment of debt	2,786	-	3,965	-
Income (loss) from continuing operations before tax	(34,803)	21,306	(66,273)	37,306
Provision (benefit) for income taxes from continuing operations	(276)	148	(12,158)	308
Income (loss) from continuing operations, net of tax	(34,527)	21,158	(54,115)	36,998
Income from discontinued operations, net of tax	-	-	22,727	-
Net income (loss)	$ (34,527)	$ 21,158	$ (31,388)	$ 36,998
Income (loss) per share from continuing operations:				
Basic	$ (0.57)	$ 0.30	$ (0.89)	$ 0.52
Diluted	$ (0.57)	$ 0.28	$ (0.89)	$ 0.50
Income per share from discontinued operations:				
Basic	$ 0.00	$ 0.00	$ 0.37	$ 0.00
Diluted	$ 0.00	$ 0.00	$ 0.37	$ 0.00
Net income (loss) per share:				
Basic	$ (0.57)	$ 0.30	$ (0.52)	$ 0.52
Diluted	$ (0.57)	$ 0.28	$ (0.52)	$ 0.50
Weighted average shares outstanding:				
Basic	61,054	69,806	60,752	69,745
Diluted	61,054	74,371	60,752	74,143

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

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

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

	Six months ended	
	March 28, 2009	*April 3, 2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	$ (31,388)	$ 36,998
Less: Income from discontinued operations	22,727	-
Income (loss) from continuing operations	(54,115)	36,998
Adjustments to reconcile income (loss) from continuing operations to net cash provided by (used in) operating activities:		
Depreciation and amortization	10,755	8,919
Amortization of debt discount and debt issuance costs	3,247	3,458
Amortization of gain on sale of building	-	(54)
Equity-based compensation and employee benefits	478	3,411
Provision for doubtful accounts	984	15
Provision for inventory valuation	5,365	169
Deferred taxes	(6,099)	8
Impairment of goodwill	2,709	
Gain on extinguishment of debt	(3,965)	-
Changes in operating assets and liabilities, net of businesses acquired or sold:		
Accounts and notes receivable	46,608	(12,557)
Inventory	(1,630)	(15,787)
Prepaid expenses and other current assets	6,655	(1,661)
Accounts payable and accrued expenses	(20,687)	20,371
Income taxes payable	(20,771)	(984)
Other, net	633	(1,987)
Net cash provided by (used in) continuing operations	(29,833)	40,319
Net cash used in discontinued operations	(1,218)	(906)
Net cash provided by (used in) operating activities	(31,051)	39,413
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property, plant and equipment	(3,346)	(2,106)
Proceeds from sale of property, plant and equipment	-	3,958
Proceeds from sales of investments classified as available-for-sale	3,779	-
Purchase of Orthodyne	(87,039)	-
Changes in restricted cash, net	34,717	65
Net cash provided by (used in) continuing operations	(51,889)	1,917
Net cash provided by (used in) discontinued operations	149,857	(1,838)
Net cash provided by investing activities	97,968	79
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net costs from sale of common stock	-	(29)
Proceeds from exercise of common stock options	3	212
Payments on borrowings	(84,358)	-
Net cash provided by (used in) financing activities	(84,355)	183
Effect of exchange rate changes on cash and cash equivalents	113	(154)
Changes in cash and cash equivalents	(17,325)	39,521

Cash and cash equivalents at beginning of period		144,932		144,560
Cash and cash equivalents at end of period	$	127,607	$	184,081
CASH PAID FOR:				
Interest	$	981	$	726
Income taxes	$	3,466	$	1,725

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

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

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

NOTE 1 – BASIS OF PRESENTATION

Basis of Consolidation

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

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

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

Fiscal Year

Each of the Company's first three fiscal quarters ends on the Saturday that is 13 weeks after the end of the immediately preceding fiscal quarter. The fourth quarter of each fiscal year ends on the Saturday closest to September 30 th. The fiscal 2009 quarters ended on December 27, 2008, March 28, 2009, June 27, 2009 and October 3, 2009. The fiscal 2010 quarters end on January 2, 2010, April 3, 2010, July 3, 2010 and October 2, 2010. In fiscal years consisting of 53 weeks, the fourth quarter will consist of 14 weeks.

Nature of Business

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

Basis of Presentation

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

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

Vulnerability to Certain Concentrations

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

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

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

Allowance for Doubtful Accounts

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

Inventories

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

Foreign Currency Translation

The majority of the Company's business is transacted in U.S. dollars; however, the functional currencies of some of the Company's subsidiaries are their local currencies. In accordance with ASC No. 830, Foreign Currency Matters ("ASC 830"), for a subsidiary of the Company that has a functional currency other than the U.S. dollar, gains and losses resulting from the translation of the functional currency into U.S. dollars for financial statement presentation are not

included in determining net income (loss), but are accumulated in the cumulative translation adjustment account as a separate component of shareholders' equity (accumulated other comprehensive income (loss)). Under ASC 830, cumulative translation adjustments are not adjusted for income taxes if they relate to indefinite investments in non-U.S. subsidiaries. Gains and losses resulting from foreign currency transactions are included in the determination of net income (loss).

Revenue Recognition

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

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

Income Taxes

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

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

Earnings per Share

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

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

Equity-Based Compensation

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

Recent Accounting Pronouncements

Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities

In December 2009, the FASB issued Accounting Standards Update (“ASU”) No. 2009-17, Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities (“ASU 2009-17”). ASU 2009-17 clarifies the application of consolidation guidance for variable interest entities (“VIEs”) in which the party with the controlling financial interest might not be solely identified through voting rights. ASU 2009-17 amends the guidance for determining the accounting model of VIEs from a quantitative analysis to a qualitative analysis. The amended guidance was effective in December of 2009. ASU 2009-17 will not impact the Company’s consolidated results of operations and financial position.

NOTE 2 – DISCONTINUED OPERATIONS

On September 29, 2008, the Company completed the sale of certain assets and liabilities associated with its Wire business. The Company recognized net proceeds of $149.9 million and a net gain of $22.7 million, net of tax, during the six months ended March 28, 2009. The Company did not recognize any income or loss from discontinued operations for the three months ended March 28, 2009, or the three and six months ended April 3, 2010.

The following table reflects operating results of the Wire business discontinued operations for the six months ended March 28, 2009:

(in thousands)		Six months ended March 28, 2009
Net revenue	$	-
Loss before tax	$	(319)
Gain on sale of Wire business before tax		23,524
Income from discontinued operations before tax		23,205
Income tax expense		(478)
Income from discontinued operations, net of tax	$	22,727

As of April 3, 2010, the Company has settled all working capital adjustments with Heraeus. The following table reflects cash flows associated with the Company’s discontinued operations for the six months ended March 28, 2009 and April 3, 2010:

	Six months ended			
(in thousands)	March 28, 2009		April 3, 2010	
Cash flows provided by (used in):				
Operating activities: Wire business	$	(319)	$	-
Operating activities: Test business (sold in fiscal 2006) (1)		(899)		(906)
Investing activities: Wire business (2)		149,857		(1,838)
Net cash provided by (used in) discontinued operations	$	148,639	$	(2,744)

(1) Represents facility-related costs associated with the Company’s former Test operations.
(2) Fiscal 2010 amount represents final settlement of working capital adjustments with Heraeus.

NOTE 3 – COST REDUCTION PLAN

On February 15, 2010, the Company committed to a plan to reduce its Irvine, California workforce by approximately 56 employees over a period of approximately 26 months. As part of this workforce reduction plan, substantially all of the Company's California-based wedge bonder manufacturing will be transferred to the Company's manufacturing facilities in Kuala Lumpur, Malaysia and Singapore. Certain administrative functions will also be transferred to Malaysia and Singapore. Management determined that it was in the best interests of the Company to reduce costs by migrating production and certain administrative functions from California to Asia.

With respect to the California-based wedge bonder transfer to Asia, the Company anticipates $2.0 million of additional pre-tax expense, consisting of $1.4 million of severance and $0.6 million of retention costs. The Company expects substantially all of this expense to be incurred by the end of the second fiscal quarter of 2011, with corresponding cash payments to be incurred beginning in the first fiscal quarter of 2011 and ending in the first fiscal quarter of 2013.

During fiscal 2009, the Company committed to a plan to reduce its Israel-based workforce by approximately 170 employees by the end of fiscal 2010. As part of this workforce reduction plan, substantially all of the Company’s Israel-based manufacturing has been transferred to the Company’s manufacturing facilities in Suzhou, China. The Company expects to incur approximately $0.4 million in additional severance costs and the amounts accrued are expected to be paid out over the next 6 months related to these cost reduction efforts. As part of the Israel-based manufacturing transition to China, during the three months ended April 3, 2010, the Company sold its facility in Israel and simultaneously entered into an agreement to leaseback a portion of the building for five years with an option to extend the lease. The Company realized a $0.7 million gain on the sale which will be recognized over the five year lease term.

Separately during fiscal 2009 due to the global economic downturn, the Company reduced its global workforce by approximately 20% of total employees which minimized cash usage and reduced employee compensation costs.

The following table reflects severance activity for all plans during the three and six months ended March 28, 2009 and April 3, 2010:

(in thousands)	Three months ended		Six months ended	
	March 28, 2009	April 3, 2010	March 28, 2009	April 3, 2010
Accrual for estimated severance and benefits, beginning of period	$ 1,223	$ 2,193	$ -	$ 2,413
Provision for severance and benefits: Equipment segment (1)	3,039	202	4,638	168
Provision for severance and benefits: Expendable Tools segment (1)	1,124	124	2,110	357
Payment of severance and benefits	(2,966)	(446)	(4,328)	(865)
Accrual for estimated severance and benefits, end of period (2)	$ 2,420	$ 2,073	$ 2,420	$ 2,073

(1) Provision for severance and benefits is the total amount expected to be incurred and is included within selling, general and administrative expenses on the Consolidated Statements of Operations.
(2) Accrual for estimated severance as of March 28, 2009 and April 3, 2010 was included within accrued expenses and other current liabilities and other liabilities on the Consolidated Balance Sheet.

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

NOTE 4 – GOODWILL AND INTANGIBLE ASSETS

Goodwill

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

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

(in thousands)	Equipment segment	Expendable Tools segment	Total
As of October 3, 2009 and April 3, 2010:			
Beginning of period, Goodwill, gross	$ 22,999	$ 6,408	$ 29,407
Accumulated impairment losses (1)	(2,709)	-	(2,709)
End of period, Goodwill, net	$ 20,290	$ 6,408	$ 26,698

(1) During the three months ended March 28, 2009, the Company recorded a $2.7 million impairment charge related to its die bonder goodwill.

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Intangible Assets

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

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

(in thousands)	As of October 3, 2009	As of April 3, 2010	Average estimated useful lives (in years)
Wedge bonder developed technology	$ 33,200	$ 33,200	7.0
Accumulated amortization	(4,742)	(7,114)	
Net wedge bonder developed technology	28,458	26,086	
Wedge bonder customer relationships	19,300	19,300	5.0
Accumulated amortization	(3,860)	(5,790)	
Net wedge bonder customer relationships	15,440	13,510	
Wedge bonder trade name	4,600	4,600	8.0
Accumulated amortization	(575)	(863)	
Net wedge bonder trade name	4,025	3,737	
Wedge bonder other intangible assets	2,500	2,500	1.9
Accumulated amortization	(1,767)	(1,949)	
Net wedge bonder other intangible assets	733	551	
Net intangible assets	$ 48,656	$ 43,884	

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

(in thousands)	
Fiscal 2010 (remaining fiscal year)	$ 4,773
Fiscal 2011	9,544
Fiscal 2012	9,178
Fiscal 2013	9,178
Fiscal 2014-2016	11,211
	$ 43,884

NOTE 5 – COMPREHENSIVE INCOME (LOSS)

The following table reflects the components of comprehensive income (loss) for the three and six months ended March 28, 2009 and April 3, 2010:

	Three months ended		Six months ended	
(in thousands)	March 28, 2009 *	April 3, 2010	March 28, 2009 *	April 3, 2010
Net income (loss) (1)	$ (34,527)	$ 21,158	$ (31,388)	$ 36,998
Loss from foreign currency translation adjustments	(143)	(2)	(1,438)	(655)
Unrealized gain on investments, net of taxes	3	-	3	-
Unrecognized actuarial net gain (loss), Switzerland pension plan, net of tax	(119)	(29)	166	9
Other comprehensive loss	$ (259)	$ (31)	$ (1,269)	$ (646)
Comprehensive income (loss)	$ (34,786)	$ 21,127	$ (32,657)	$ 36,352

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

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

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

	As of	
(in thousands)	October 3, 2009	April 3, 2010
Gain from foreign currency translation adjustments	$ 746	$ 91
Unrecognized actuarial net gain, Switzerland pension plan, net of taxes	1,133	1,142
Accumulated other comprehensive income	$ 1,879	$ 1,233

NOTE 6 – BALANCE SHEET ACCOUNTS

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

	As of	
(in thousands)	October 3, 2009	April 3, 2010
Inventories, net:		
Raw materials and supplies	$ 30,048	$ 33,250
Work in process	10,788	17,907
Finished goods	13,170	15,614
	54,006	66,771
Inventory reserves	(12,517)	(9,671)
	$ 41,489	$ 57,100
Property, plant and equipment, net:		
Land (1)	$ 2,735	$ 2,618
Buildings and building improvements (1)	14,351	11,601
Leasehold improvements	11,695	9,219
Data processing and hardware equipment and software	21,822	22,162
Machinery and equipment	40,600	39,493
	91,203	85,093
Accumulated depreciation	(55,157)	(54,708)
	$ 36,046	$ 30,385
Accrued expenses and other current liabilities:		
Wages and benefits	$ 10,423	$ 11,641
Accrued customer obligations (2)	4,438	6,482
Severance (3)	3,264	2,806
Short-term facility accrual related to discontinued operations (Test)	1,839	1,819
Payable to Heraeus (4)	1,857	-
Other	10,755	8,989
	$ 32,576	$ 31,737

(1) During the three months ended April 3, 2010, the Company sold its facility in Yokneam, Israel for $4.5 million. Net proceeds of $4.0 million were received and $0.5 million is held in escrow for taxes. Simultaneous with the sale, the Company entered into an agreement to leaseback a portion of the building for five years with an option to extend the lease. The Company realized a $0.7 million gain on the sale which will be recognized over the five year lease term.
(2) Represents customer advance payments, customer credit program, accrued warranty expense and accrued retrofit costs.
(3) Total severance payable within the next twelve months includes the severance plans discussed in Note 3, and approximately $0.7 million of other severance obligations which were not part of the Company's cost reduction plans.
(4) Fiscal 2009 amount related to certain open working capital adjustments with Heraeus, which were settled in fiscal 2010.

NOTE 7 – DEBT OBLIGATIONS

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

				(in thousands) As of	
	Payment Dates	Conversion	Maturity		
Rate	of each year	Price	Date	October 3, 2009 *	April 3, 2010
1.000%	June 30 and December 30	$ 12.84	June 30, 2010	$ 48,964	$ 48,964
0.875%	June 1 and December 1	$ 14.36	June 1, 2012	110,000	110,000
Debt discount on 0.875% Convertible Subordinated Notes due June 2012				(17,783)	(14,713)
				$ 141,181	$ 144,251

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

1.0% Convertible Subordinated Notes

The Company's 1.0% Notes are general obligations and are subordinated to all senior debt. The 1.0% Notes rank equally with the Company's other 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 the securities.

0.875% Convertible Subordinated Notes

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

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

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

associated with the equity component of the 0.875% Convertible Subordinated Notes was $1.0 million. The issuance costs are amortized under the effective interest method from the original issue date.

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

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The following tables reflect the effect of the change due to ASC 470.20 on the Consolidated Statements of Operations for the three and six months ended March 28, 2009:

	Three months ended		
(in thousands)	March 28, 2009, as reported	March 28, 2009 as adjusted	Effect of change
Interest expense	$ 640	$ 2,024	$ 1,384
Loss from continuing operations before taxes	(33,419)	(34,803)	(1,384)
Benefit for income taxes	(276)	(276)	-
Loss from continuing operations	$ (33,143)	$ (34,527)	$ (1,384)
Diluted loss per share from continuing operations	$ (0.54)	$ (0.57)	$ (0.03)

	Six months ended		
(in thousands)	March 28, 2009, as reported	March 28, 2009 as adjusted	Effect of change
Interest expense	$ 1,374	$ 4,103	$ 2,729
Loss from continuing operations before taxes	(63,544)	(66,273)	(2,729)
Benefit for income taxes	(12,158)	(12,158)	-
Loss from continuing operations	$ (51,386)	$ (54,115)	$ (2,729)
Diluted loss per share from continuing operations	$ (0.85)	$ (0.89)	$ (0.04)

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

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

The following table reflects the effect of the change due to ASC 470.20 on the Consolidated Statement of Cash Flows for the six months ended March 28, 2009:

(in thousands)	For the six months ended March 28, 2009, as reported	March 28, 2009, as adjusted	Effect of change
Net loss	$ (28,659)	$ (31,388)	$ (2,729)
Loss from continuing operations	(51,386)	(54,115)	(2,729)
Amortization of debt discount and debt issuance costs	518	3,247	2,729
Net cash used in continuing operations	(29,833)	(29,833)	-

The following table reflects amortization expense related to issue costs from the Company's Convertible Subordinated Notes for the three and six months ended March 28, 2009 and April 3, 2010:

(in thousands)	Three months ended March 28, 2009 *	April 3, 2010	Six months ended March 28, 2009 *	April 3, 2010
Amortization expense related to issue costs	$ 181	$ 192	$ 414	$ 388

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

The following table reflects the Company's open market purchases of its Convertible Subordinated Notes for the three and six months ended March 28, 2009:

(in thousands)	Three Months Ended March 28, 2009	Six Months Ended March 28, 2009
0.5% Convertible Subordinated Notes (1):		
Face value purchased	$ -	$ 43,050
Net cash	-	42,839
Deferred financing costs	-	18
Recognized gain, net of deferred financing costs	-	193
1.0% Convertible Subordinated Notes: (2)		
Face value purchased	$ 13,036	$ 16,036
Net cash	10,168	12,158
Deferred financing costs	82	106
Recognized gain, net of deferred financing costs	2,786	3,772
Gain on early extinguishment of debt	$ 2,786	$ 3,965

(1) Repurchase transactions occurred prior to redemption on November 30, 2008.
(2) Activity during the three months ended March 28, 2009 reflects repurchases pursuant to a tender offer.

NOTE 8 – SHAREHOLDERS' EQUITY AND EMPLOYEE BENEFIT PLAN

Common Stock

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

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

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

Equity-Based Compensation

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

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

- Performance-based restricted stock entitles the employee to receive common shares of the Company on the three-year anniversary of the grant date (if employed by the Company) if return on invested capital and revenue growth targets set by the Management Development and Compensation Committee of the Board of Directors on the date of grant are met. If return on invested capital and revenue growth targets are not met, performance-based restricted stock does not vest.

- Market-based restricted stock entitles the employee to receive common shares of the Company on the award vesting date, if market performance objectives which measure relative total shareholder return ("TSR") are attained. Relative TSR is calculated based upon the 90-calendar day average price of the Company's stock as compared to specific peer companies that comprise the Philadelphia Semiconductor Index. TSR is measured for the Company and each peer company over a performance period, which is generally three years. Vesting percentages range from 0% to 200% of awards granted. The provisions of the market-based restricted stock are reflected in the grant date fair value of the award; therefore, compensation expense is recognized regardless of whether or not the market condition is ultimately satisfied. Compensation expense is reversed if the award forfeits prior to the vesting date.

Equity-based compensation expense recognized in the Consolidated Statements of Operations for the three and six months ended March 28, 2009 and April 3, 2010 was based upon awards ultimately expected to vest. In accordance with ASC 718, forfeitures have been estimated at the time of grant and were based upon historical experience. The Company reviews the forfeiture rates periodically and makes adjustments as necessary.

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The following table reflects stock options, restricted stock and common stock granted during the three and six months ended March 28, 2009 and April 3, 2010:

	Three months ended		Six months ended	
(number of shares in thousands)	March 28, 2009	April 3, 2010	March 28, 2009	April 3, 2010
Market-based restricted stock	-	-	-	398
Performance-based restricted stock	2	-	403	-
Time-based restricted stock	45	-	825	784
Stock options	15	26	154	26
Common stock	65	33	106	65
Equity-based compensation in shares	127	59	1,488	1,273

The following table summarizes equity-based compensation expense (reversal of expense), by type of award, included in the Consolidated Statements of Operations during the three and six months ended March 28, 2009 and April 3, 2010:

	Three months ended		Six months ended	
(in thousands)	March 28, 2009	April 3, 2010	March 28, 2009	April 3, 2010
Market-based restricted stock	$ -	$ 273	$ -	$ 388
Performance-based restricted stock	25	682	(1,537)	738
Time-based restricted stock	179	467	380	1,057
Stock options	334	107	843	270
Common stock	120	180	300	360
Equity-based compensation expense	$ 658	$ 1,709	$ (14)	$ 2,813

As the global economy improved during the three months ended April 3, 2010, the Company determined performance objectives for the performance-based restricted stock issued in fiscal 2007 and 2008 would improve. Accordingly, estimated attainment percentages increased and total compensation expense for the performance-based restricted stock also increased for the three months ended April 3, 2010. During the prior year in connection with the global economic decline during the six months ended March 28, 2009, the Company determined performance objectives for the performance-based restricted stock issued in fiscal 2007 and 2008 would not be attained at the previous estimated levels. In accordance with ASC 718, by lowering estimated attainment percentages, total compensation expense for the performance-based restricted stock decreased and previously recorded compensation expense was reversed during fiscal 2009.

The following table reflects total equity-based compensation expense (reversal of expense), which includes stock options, restricted stock and common stock, included in the Consolidated Statements of Operations during the three and six months ended March 28, 2009 and April 3, 2010:

	Three months ended		Six months ended	
(in thousands)	March 28, 2009	April 3, 2010	March 28, 2009	April 3, 2010
Cost of sales	$ 28	$ 50	$ (1)	$ 96
Selling, general and administrative	416	1,273	(251)	1,987
Research and development	214	386	238	730
Equity-based compensation expense	$ 658	$ 1,709	$ (14)	$ 2,813

The following table summarizes the unrecognized equity-based compensation expense, by type of award, as of March 28, 2009 and April 3, 2010:

(dollar amounts in thousands)	As of March 28, 2009	As of April 3, 2010	Average remaining contractual life in years
Market-based restricted stock	$ -	$ 2,310	1.9
Performance-based restricted stock	438	1,179	1.0
Time-based restricted stock	1,931	5,005	2.2
Stock options	1,775	585	1.4
Unrecognized equity-based compensation expense	$ 4,144	$ 9,079	

401(k) Retirement Income Plan

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

The following table reflects the Company's matching contributions to the 401(k) retirement income plan which were made in the form of issued and contributed shares of Company common stock during the three and six months ended March 28, 2009 and April 3, 2010:

	Three months ended		Six months ended	
(in thousands)	March 28, 2009	April 3, 2010	March 28, 2009	April 3, 2010
Number of common shares	177	50	273	100
Fair value based upon market price at date of distribution	$ 288	$ 308	$ 492	$ 598

NOTE 9 – INCOME TAXES

The following table reflects the provision (benefit) for income taxes and the effective tax rate from continuing operations for the six months ended March 29, 2009 and April 3, 2010:

	Six months ended	
(dollar amounts in thousands)	March 28, 2009 *	April 3, 2010
Income (loss) from continuing operations before taxes	$ (66,273)	$ 37,306
Provision (benefit) for income taxes	(12,158)	308
Income (loss) from continuing operations	$ (54,115)	$ 36,998
Effective tax rate	18.3%	0.8%

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

For the six months ended April 3, 2010, the effective income tax rate related to continuing operations differed from the federal statutory rate primarily due to: decreases in the valuation allowance, Federal alternative minimum taxes, state income taxes, tax from foreign operations, impact of tax holidays, an increase in deferred taxes for un-remitted earnings and other U.S. current and deferred taxes.

For the six months ended March 28, 2009, the effective income tax rate related to continuing operations differed from the federal statutory rate primarily due to: increases in the valuation allowance, state income taxes, tax from foreign operations, impact of tax holidays, decreases in deferred taxes for un-remitted earnings, and decreases in tax reserves.

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

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

NOTE 10 - SEGMENT INFORMATION

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

The following table reflects operating results by segment for the three and six months ended March 28, 2009 and April 3, 2010:

	Three months ending		Six months ending	
(in thousands)	March 28, 2009	April 3, 2010	March 28, 2009	April 3, 2010
Net revenue				
Equipment	$ 16,977	$ 136,353	$ 40,636	$ 247,950
Expendable Tools	8,255	17,485	22,012	34,303
Net revenue	25,232	153,838	62,648	282,253
Cost of sales				
Equipment	12,564	79,466	29,221	144,611
Expendable Tools	4,623	6,600	11,454	13,497
Cost of sales	17,187	86,066	40,675	158,108
Gross profit				
Equipment	4,413	56,887	11,415	103,339
Expendable Tools	3,632	10,885	10,558	20,806
Gross profit	8,045	67,772	21,973	124,145
Operating Expenses				
Equipment	34,981	36,693	73,714	68,298
Expendable Tools	6,113	7,757	12,632	14,539
Operating expenses	41,094	44,450	86,346	82,837
Impairment of goodwill				
Equipment	2,709	-	2,709	-
Income (loss) from operations				
Equipment	(33,277)	20,194	(65,008)	35,041
Expendable Tools	(2,481)	3,128	(2,074)	6,267
Income (loss) from operations	$ (35,758)	$ 23,322	$ (67,082)	$ 41,308

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

	As of	
(in thousands)	October 3, 2009 *	April 3, 2010
Equipment	$ 303,835	$ 386,891
Expendable Tools	108,800	85,506
Segment assets	$ 412,635	$ 472,397

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

NOTE 11 - EARNINGS PER SHARE

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

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

The Company's 0.875% Convertible Subordinated Notes would not result in the issuance of any dilutive shares, since the Notes are not convertible and the conversion option was not "in the money" as of March 28, 2009 or April 3, 2010. Accordingly, diluted EPS excludes the effect of the conversion of the 0.875% Convertible Subordinated Notes.

The following tables reflect reconciliations of the shares used in the basic and diluted net income (loss) per share computation for the three and six months ended March 28, 2009 and April 3, 2010:

	Three months ended			
	March 28, 2009 *		April 3, 2010	
(in thousands, except per share data)	Basic	Diluted	Basic	Diluted
NUMERATOR:				
Income (loss) from continuing operations	$ (34,527)	$ (34,527)	$ 21,158	$ 21,158
Less: Income applicable to participating securities	-	-(1)	(227)	(227)
After-tax interest expense	-	-(1)	-	122
Income (loss) applicable to common shareholders	$ (34,527)	$ (34,527)	$ 20,931	$ 21,053
DENOMINATOR:				
Weighted average shares outstanding - Basic (3)	61,054	61,054	69,806	69,806
Stock options		-(1)		192
Time-based restricted stock		-(1)		234
Market-based restricted stock		n/a		326
1.000 % Convertible Subordinated Notes		-(1)		3,813
0.875 % Convertible Subordinated Notes		-(1)		n/a
Weighted average shares outstanding - Diluted (2)		61,054		74,371
EPS:				
Income (loss) per share from continuing operations - Basic	$ (0.57)	$ (0.57)	$ 0.30	$ 0.30
Effect of dilutive shares		-(1)		$ (0.02)
Income (loss) per share from continuing operations - Diluted		$ (0.57)		$ 0.28

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	Six months ended			
	March 28, 2009 *		April 3, 2010	
(in thousands, except per share data)	Basic	Diluted	Basic	Diluted
NUMERATOR:				
Income (loss) from continuing operations	$ (54,115)	$ (54,115)	$ 36,998	$ 36,998
Less: Income applicable to participating securities	-	-(1)	(398)	(398)
After-tax interest expense	-	-(1)	-	245
Income (loss) applicable to common shareholders	$ (54,115)	$ (54,115)	$ 36,600	$ 36,845
DENOMINATOR:				
Weighted average shares outstanding - Basic (3)	60,752	60,752	69,745	69,745
Stock options		-(1)		171
Time-based restricted stock		-(1)		137
Market-based restricted stock		n/a		277
1.000 % Convertible Subordinated Notes		-(1)		3,813
0.875 % Convertible Subordinated Notes		-(1)		n/a
Weighted average shares outstanding - Diluted (2)		60,752		74,143
EPS:				
Income (loss) per share from continuing operations - Basic	$ (0.89)	$ (0.89)	$ 0.52	$ 0.52
Effect of dilutive shares		-(1)		$ (0.02)
Income (loss) per share from continuing operations - Diluted		$ (0.89)		$ 0.50

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

(1) Due to the Company's loss from continuing operations for the period, the effect of participating securities was excluded from the computation of basic and diluted EPS, and the conversion of Convertible Subordinated Notes and the related after-tax interest expense was not assumed since the effect would have been anti-dilutive. In addition, due to the Company's loss from continuing operations, potentially dilutive shares were not assumed since the effect would have been anti-dilutive.
(2) Three and six months ended April 3, 2010, excludes 284 and 325 dilutive participating securities, respectively, as the income attributable to these shares was not included in EPS.
(3) Increase in weighted average shares outstanding primarily due to issuance of 7.1 common shares on October 3, 2008 in connection with the acquisition of Orthodyne.

The following table reflects the number of potentially dilutive shares which were excluded from diluted EPS, as their inclusion was anti-dilutive, for the three and six months ended March 28, 2009 and April 3, 2010:

	Three months ended		Six months ended	
(in thousands)	March 28, 2009	April 3, 2010	March 28, 2009	April 3, 2010
Potentially dilutive shares related to:				
Stock options, out of the money	6,616	2,881	6,769	3,707
Convertible Subordinated Notes	4,572	-	5,467	-
	11,188	2,881	12,236	3,707

NOTE 12 – GUARANTOR OBLIGATIONS, COMMITMENTS, CONTINGENCIES AND CONCENTRATIONS

Guarantor Obligations

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

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

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

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

Warranty Expense

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

The following table reflects product warranty activity included in accrued expenses for the three and six months ended March 28, 2009 and April 3, 2010:

	Three months ended		Six months ended	
(in thousands)	March 28, 2009	April 3, 2010	March 28, 2009	April 3, 2010
Reserve for product warranty, beginning of period	$ 782	$ 1,393	$ 918	$ 1,003
Provision for product warranty	297	744	981	1,535
Product warranty costs paid	(511)	(467)	(1,331)	(868)

Reserve for product warranty, end of period	$	568	$	1,670	$	568	$	1,670

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Concentrations

The following table reflects significant customer concentrations as a percent of net revenue for the six months ended March 28, 2009 and April 3, 2010:

	Six Months Ended	
	March 28, 2009	April 3, 2010
Advanced Semiconductor Engineering	*	29.1%

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

	As of	
	October 3, 2009	April 3, 2010
Siliconware Precision Industries Co., Ltd.	*	16.5%
Haoseng Industrial Co. Ltd.	*	11.8%
Advanced Semiconductor Engineering	32.4%	*
Amkor Technology Inc	11.6%	*

* Represents less than ten percent of net revenue or total accounts receivable, as applicable.

NOTE 13 – RELATED PARTY TRANSACTIONS

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

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

Forward-Looking Statements

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

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

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

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

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

OVERVIEW

Introduction

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

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

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

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

On September 29, 2008, we completed the sale of our Wire business for net proceeds of $149.9 million to W.C. Heraeus GmbH ("Heraeus"). The financial results of the Wire business have been included in discontinued operations in the consolidated financial statements for all periods presented.

Business Environment

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

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

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

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

To mitigate possible negative effects of this industry-wide volatility on our financial position, we have de-leveraged and strengthened our balance sheet. During fiscal 2009, we reduced our debt by $88.4 million, and we completed a public equity offering of 8.0 million common shares which raised $38.7 million of net proceeds. We ended the second quarter of fiscal 2010 with cash and cash equivalents totaling $184.1 million, $39.5 million higher than our fiscal year end. As of April 3, 2010, our total cash and cash equivalents exceeded our total debt. We believe a strong cash position allows us to continue making longer term investments in product development and in cost reduction activities throughout the semiconductor cycle.

Technology Leadership

We compete largely by offering our customers the most advanced equipment and expendable tools available for both the wire and die bonding process. Our equipment is typically the fastest and has the highest levels of process capability available in their respective categories. Our expendable tools are designed to optimize the performance of the equipment in which they are used. We believe our technology leadership contributes to the leading market share positions of our various wire bonder and expendable tools products. To maintain our competitive advantage, we invest in product development activities to produce a stream of improvements to existing products and to deliver next-generation products. These investments often focus as much on improvements in the semiconductor assembly process as on specific pieces of assembly equipment or expendable tools. In order to generate these improvements, we often work in close collaboration with customers, end users, and other industry members. In addition to producing technical advances, these collaborative development efforts strengthen customer relationships and enhance our reputation as a technology leader and solutions provider.

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

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

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

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

Products and Services

We offer a range of bonding equipment and expendable tools. The following table reflects net revenue by business segment for the three and six months ended March 28, 2009 and April 3, 2010, respectively:

	Three months ended				Six months ended			
	March 28, 2009		April 3, 2010		March 28, 2009		April 3, 2010	
(dollar amounts in thousands)	Net Revenues	% of Total Revenue	Net Revenues	% of Total Revenue	Net Revenues	% of Total Revenue	Net Revenues	% of Total Revenue
Equipment	$ 16,977	67.3%	$ 136,353	88.6%	$ 40,636	64.9%	$ 247,950	87.8%
Expendable Tools	8,255	32.7%	17,485	11.4%	22,012	35.1%	34,303	12.2%
	$ 25,232	100.0%	$ 153,838	100.0%	$ 62,648	100.0%	$ 282,253	100.0%

Equipment Segment

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

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

Our principal Equipment segment products include:

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

Ball Bonders

Automatic ball bonders represent the largest portion of our semiconductor equipment business. Our main product platform for ball bonding is the Power Series — a family of assembly equipment that is setting new standards for performance, productivity, upgradeability, and ease of use. Our Power Series initially consisted of the IConnPS high-performance and ConnX PS cost-performance ball bonders. In fiscal 2009, we launched two extensions of our ConnXPSTM automatic ball bonder aimed specifically at LED applications — ConnX-LED PS TM and ConnX-VLED PS TM. Traditionally, we had not targeted the LED market with our product portfolio, but through the technology leadership of ConnX PS TM and its variants, we now offer excellent cost performance bonding solutions in an area of the market where some of our competitors were once dominant.

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

Heavy Wire Wedge Bonders

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

Our portfolio of wedge bonding products includes:

- The 3600 Plus wedge bonders: high speed, high accuracy wire bonders designed for power modules, automotive packages and other large wire multi-chip module applications.
-

The 7200 Plus wedge bonders: dual head wedge bonder designed specifically for power semiconductor applications.

- The 7600 series wedge bonder: wedge bonder targeted for small power packages and also intended to extend our product portfolio to include reel-to-reel type applications.

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

Die Bonders

Our next-generation die bonder, the iStack, was launched in March of 2009. We continue to put iStack qualification machines in customers' factories, sold our first machine in the second fiscal quarter of 2010, and have received additional iStack machine orders during the third quarter of 2010.

iStack is targeted at stacked die and high end ball grid array (BGA) applications. In these applications, we expect up to 20% to 40% productivity increases compared to current generation machines. In addition, iStack has demonstrated superior accuracy and process control. We believe iStack represents a significant opportunity for us to expand our die bonder business.

During fiscal 2009, we announced the end of life of our older die bonder products.

Other Equipment Products and Services

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

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

Expendable Tools Segment

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

- Capillaries: expendable tools used in ball bonders. Made of ceramic, a capillary guides the wire during the ball bonding process. Its features help control the bonding process. We design and build capillaries suitable for a broad range of applications, including for use on our competitors' equipment.

- Bonding wedges: expendable tools used in wedge bonders. Like capillaries, their specific features are tailored to specific applications. We design and build bonding wedges for use both in our own equipment and in our competitors' equipment.

- Saw blades: expendable tools used by semiconductor manufacturers to cut silicon wafers into individual semiconductor die and to cut semiconductor devices that have been molded in a matrix configuration into individual units.

Presentation of non-GAAP measures

Adjusted net income (loss), adjusted diluted net income (loss) per share and adjusted return on invested capital ("ROIC") are supplemental measures of our performance that are not presented in accordance with U.S. generally accepted accounting principles ("GAAP"). We believe certain non-GAAP measures provide investors with an additional, useful perspective on our performance as seen through the eyes of management. We use non-GAAP

measures along with GAAP financial results for: analyzing the performance of our businesses; strategic and tactical decision making; and determining compensation. We do not consider non-GAAP measures to be a substitute for, or superior to, financial results presented in accordance with GAAP. All of the non-GAAP measures included herein are reconciled to the most directly comparable GAAP results in the financial statements. These non-GAAP measures may be calculated differently from non-GAAP measures used by other companies. In addition, these non-GAAP measures are not based on a comprehensive set of accounting rules or principles and some of the adjustments reflect the exclusion of items that are recurring and will be reflected in the our GAAP financial results for the foreseeable future.

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

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

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

- Severance plan
- Impairment of goodwill
- Facilities contractual commitments
- Tax settlement expense
- Amortization of intangibles
- Gain on extinguishment of debt
- Non-cash interest expense
- Tax settlement benefit

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

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

Adjusted Gross Profit
Our non-GAAP adjusted gross profit excludes the effects of equity-based compensation expense recorded within cost of sales.

Adjusted Gross Margin
Our non-GAAP adjusted gross margin excludes the impact of equity-based compensation expense recorded within cost of sales.

Adjusted Net Income (Loss) and EPS
Our non-GAAP adjusted net income (loss) and EPS exclude equity-based compensation; severance; impairment of goodwill; facilities contractual commitments; tax settlement expense; amortization of intangibles; gain on extinguishment of debt; non-cash interest expense; tax settlement benefit; and related tax effects on non-GAAP adjustments.

Adjusted Net Margin
Our non-GAAP adjusted net margin reflects our net margin excluding equity-based compensation; severance; impairment of goodwill; facilities contractual commitments; tax settlement expense; amortization of intangibles; gain on extinguishment of debt; non-cash interest expense; tax settlement benefit; and related tax effects on non-GAAP adjustments.

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The following table reflects certain GAAP results and the corresponding non-GAAP financial measures for the three and six months ending March 28, 2009 and April 3, 2010:

Unaudited	Three months ended		Six months ended	
(in thousands, except per share amounts)	March 28, 2009*	April 3, 2010	March 28, 2009*	April 3, 2010
Gross profit (GAAP results)	$ 8,045	$ 67,772	$ 21,973	$ 124,145
- Equity-based compensation expense	28	50	(1)	96
Gross profit (Non-GAAP measures)	$ 8,073	$ 67,822	$ 21,972	$ 124,241
Income (loss) from continuing operations (GAAP results)	$ (34,527)	$ 21,158	$ (54,115)	$ 36,998
- Equity-based compensation expense	658	1,709	(14)	2,813
- Severance plan	3,969	406	6,555	605
-Impairment of goodwill	2,709		2,709	
- Facilities contractual commitments	-	-	2,608	-
- Tax settlement expense	-	-	2,212	-
- Amortization of intangibles	2,775	2,386	5,528	4,774
- Gain on extinguishment of debt	(2,786)	-	(3,965)	-
- Non cash interest expense	1,628	1,747	3,270	3,467
- Tax settlement benefit	-	-	(12,154)	-
- Tax effect of non-GAAP adjustments	(71)	(196)	(157)	(251)
Income (loss) from continuing operations (Non-GAAP measures)	$ (25,645)	$ 27,210	$ (47,523)	$ 48,406
Weighted average shares outstanding (GAAP & Non-GAAP)				
Basic	61,054	69,806	60,752	69,745
Diluted	61,054	74,371	60,752	74,143
Income (loss) per share from continuing operations (GAAP results)				
Basic	$ (0.57)	$ 0.30	$ (0.89)	$ 0.52
Diluted	$ (0.57)	$ 0.28	$ (0.89)	$ 0.50
Adjustments to net income (loss) per share				
Basic	$ 0.15	$ 0.09	$ 0.11	$ 0.17
Diluted	$ 0.15	$ 0.08	$ 0.11	$ 0.15
Income (loss) per share from continuing operations (Non-GAAP measures)				
Basic	$ (0.42)	$ 0.39	$ (0.78)	$ 0.69
Diluted	$ (0.42)	$ 0.36	$ (0.78)	$ 0.65

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

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

Unaudited	Three months ended April 3, 2010	
(in thousands)		
Income from operations	$ 23,322	
Adjustment: Depreciation and amortization (1)	4,409	
Adjusted income from operations	27,731	
Adjusted income from operations, annualized (2)		$ 110,924
Cash, cash equivalents, restricted cash and investments	$ 184,297	
Adjustment: cash, cash equivalents, restricted cash and investments (3)	(109,297)	
Adjusted cash, cash equivalents and investments		$ 75,000
Total assets excluding cash, cash equivalents, restricted cash and investments		288,100
Adjusted total assets		363,100
Total current liabilities	$ 139,933	
Less: current portion of long-term debt	(48,964)	
Add: taxes payable (4)	1,552	
Adjusted current liabilities		92,521
Adjusted net invested capital		$ 270,579
ROIC (2)		41.0%

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

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

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

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

RESULTS OF OPERATIONS

Net Revenue

Approximately 96.2% and 98.9% of our net revenue for the three months ended March 28, 2009 and April 3, 2010, respectively, was for shipments to customer locations outside of the United States, primarily in the Asia/Pacific

region, and we expect sales outside of the United States to continue to represent a substantial majority of our future revenue. Likewise, approximately 93.4% and 98.2% of our net revenue for the six months ended March 28, 2009 and April 3, 2010, respectively, was for shipments to customer locations outside of the United States.

The following table reflects net revenue by business segment for the three and six months ended March 28, 2009 and April 3, 2010:

	Three months ended				Six months ended			
(dollar amounts in thousands)	March 28, 2009	April 3, 2010	$ Change	% Change	March 28, 2009	April 3, 2010	$ Change	% Change
Equipment	$ 16,977	$ 136,353	$ 119,376	703.2%	$ 40,636	$ 247,950	$ 207,314	510.2%
Expendable Tools	8,255	17,485	9,230	111.8%	22,012	34,303	12,291	55.8%
	$ 25,232	$ 153,838	$ 128,606	509.7%	$ 62,648	$ 282,253	$ 219,605	350.5%

Equipment

The following table reflects the components of Equipment net revenue change between the three and six months ended March 28, 2009 and April 3, 2010:

	March 28, 2009 vs. April 3, 2010					
	Three months ended			Six months ended		
(in thousands)	Price	Volume	$ Change	Price	Volume	$ Change
Equipment	$ 222	$ 119,154	$ 119,376	$ 217	$ 207,097	$ 207,314

For the three months ended April 3, 2010, higher Equipment net revenue was due to a 2600.0% increase in volume for ball bonders, 257.1% increase in volume for wedge bonders and 131.1% increase in volume for Support Services. The large volume increases were due to the global downturn during the three months ended March 28, 2009 and a strong recovery for the three months ended April 3, 2010. The ongoing higher semiconductor unit demand during the recovery increased capacity utilization rates of our customers, which in turn increased demand for capital equipment. In addition, customer investment in copper bonding capability has increased as a significant proportion of our ball bonders are sold with copper bonding capability. During the three months ended April 3, 2010, 63.8% of ball bonders shipped were configured with copper kits. This is a significant increase from the three months ended March 28, 2009 when only 5.3% of ball bonders shipped were configured with copper kits.

For the six months ended April 3, 2010, higher Equipment net revenue was due to a 2214.1% increase in volume for ball bonders, 120.9% increase in volume for wedge bonders, 62.8% increase in volume for Support Services. The large volume increase was due to the global downturn during the six months ended March 28, 2009 and a strong recovery for the six months ended April 3, 2010. The higher semiconductor unit demand during the recovery increased capacity utilization rates of our customers, which in turn increased demand for capital equipment. In addition, customer investment in copper bonding capability has increased as a significant proportion of our ball bonders are sold with copper bonding capability. During the six months ended April 3, 2010, 56.6% of ball bonders shipped were configured with copper kits, which is a significant increase from the three months ended March 28, 2009 when very few ball bonders shipped were configured with copper kits.

Expendable Tools

The following table reflects the components of Expendable Tools net revenue change between the three and six months ended March 28, 2009 and April 3, 2010:

March 28, 2009 vs. April 3, 2010	
Three months ended	Six months ended