KULICKE & SOFFA INDUSTRIES INC
Form 10-Q
February 05, 2008
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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 December 29, 2007

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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act (Check one).

Large accelerated filer ¨ Accelerated filer x Non-accelerated filer ¨

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 February 1, 2008, there were 53,371,044 shares of the Registrant s Common Stock, no par value, outstanding.

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PART I. - FINANCIAL INFORMATION

Item 1. Financial Statements

KULICKE AND SOFFA INDUSTRIES, INC.

CONSOLIDATED BALANCE SHEETS

(in thousands)

	September 29, 2007	December 29, 2007 (Unaudited)
ASSETS		
Current assets:		
Cash and cash equivalents	$ 150,571	$ 120,995
Short-term investments	19,339	17,832
Accounts and notes receivable, net of allowance for doubtful accounts of $1,713 and $2,037, respectively	177,512	199,421
Inventories, net	68,955	65,192
Prepaid expenses and other current assets	14,201	19,977
Deferred income taxes	3,631	3,517
Total current assets	434,209	426,934
Property, plant and equipment, net	37,953	39,483
Goodwill	33,212	32,393
Intangible assets	500	458
Other assets	6,726	6,580
Total assets	$ 512,600	$ 505,848
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Current portion of long-term debt	$	$ 72,412
Accounts payable	82,615	60,172
Accrued expenses	37,170	33,359
Income taxes payable	22,665	
Total current liabilities	142,450	165,943
Long-term debt	251,412	175,000
Long-term income taxes payable		24,890
Other liabilities	12,335	12,544
Deferred income taxes	23,148	23,296
Total liabilities	429,345	401,673
Commitments and contingencies (Note 12)		
Shareholders equity:		
Preferred stock, no par value:		
Authorized 5,000 shares; issued - none		
Common stock, no par value:		
	288,714	291,424

Authorized 200,000 shares; issued 58,128 and 58,232, respectively; outstanding 53,218 and 53,321 shares, respectively		
Treasury stock, at cost, 4,910 shares	(46,118)	(46,118)
Accumulated deficit	(154,094)	(136,925)
Accumulated other comprehensive loss	(5,247)	(4,206)
Total shareholders equity	83,255	104,175
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	$ 512,600	$ 505,848

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

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KULICKE AND SOFFA INDUSTRIES, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share data)

(Unaudited)

	Three Months Ended	
	December 30, 2006	**December 29, 2007**
Net revenue	$ 152,308	$ 226,250
Cost of sales	113,589	167,510
Gross profit	38,719	58,740
Selling, general and administrative	22,655	26,348
Research and development	11,825	14,928
Total operating expenses	34,480	41,276
Income from operations	4,239	17,464
Interest income	1,457	1,569
Interest expense	(636)	(872)
Gain on extinguishment of debt		170
Income from operations before income taxes	5,060	18,331
Provision for income taxes	887	1,969
Net income	$ 4,173	$ 16,362
Income per share from operations:		
Basic	$ 0.07	$ 0.33
Diluted	$ 0.06	$ 0.28
Net income per share:		
Basic	$ 0.07	$ 0.31
Diluted	$ 0.06	$ 0.27
Weighted average shares outstanding:		
Basic	57,301	53,264
Diluted	69,456	62,425

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)

	Three months ended December 30, 2006	Three months ended December 29, 2007
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 4,173	$ 16,362
Adjustments to reconcile income from continuing operations to net cash provided by (used in) operating activities:		
Depreciation and amortization	2,305	2,343
Equity-based compensation and non-cash employee benefits	2,287	2,501
Provision for doubtful accounts	511	788
Gain on early extinguishment of debt		(170)
Provision for inventory valuation	637	4,191
Deferred taxes	(242)	159
Changes in operating assets and liabilities, net of businesses acquired or sold:		
Accounts and notes receivable	7,132	(21,390)
Inventory	2,412	(35)
Prepaid expenses and other assets	237	(5,905)
Accounts payable and accrued expenses	(8,190)	(25,546)
Income taxes payable	1,080	2,495
Other, net	(1,044)	(318)
Net cash provided by (used in) continuing operations	11,298	(24,525)
Net cash used in discontinued operations	(964)	(368)
Net cash provided by (used in) operating activities	10,334	(24,893)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of Alphasem, net of $1,111 cash acquired	(28,247)	
Proceeds from sales of investments classified as available-for-sale	10,023	12,857
Purchase of investments classified as available-for-sale	(240)	(11,356)
Purchases of property, plant and equipment	(1,100)	(2,772)
Changes in restricted cash, net	1,973	
Net cash used in investing activities	(17,591)	(1,271)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from exercise of common stock options	1,037	209
Payments on borrowings, including capitalized leases		(3,833)
Net cash provided by (used in) financing activities	1,037	(3,624)
Effect of exchange rate changes on cash and cash equivalents	151	212
Changes in cash and cash equivalents	(6,069)	(29,576)
Cash and cash equivalents at beginning of period	133,967	150,571

Cash and cash equivalents at end of period	$ 127,898	$ 120,995
CASH PAID FOR:		
Interest	$ 650	$ 984
Income taxes	$ 123	$ 1,758

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   SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Consolidation

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

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 fiscal quarter in each year (the fiscal year) will end on the Saturday closest to September 30th. The fiscal 2007 quarters ended on December 30, 2006, March 31, 2007, June 30, 2007 and September 29, 2007. The fiscal 2008 quarters end on December 29, 2007, March 29, 2008, June 28, 2008 and September 27, 2008. In fiscal years consisting of 53 weeks, the fourth quarter will consist of 14 weeks.

Nature of Business

The Company designs, manufactures and markets capital equipment and packaging materials and services, maintains, repairs and upgrades assembly equipment. The Company s operating results depend upon the capital and operating expenditures of semiconductor manufacturers and subcontract assemblers worldwide which, in turn, depend on the current and anticipated market demand for semiconductors and products utilizing semiconductors. The semiconductor industry is highly volatile and experiences periodic downturns and slowdowns which have a severe negative effect on the semiconductor industry s demand for semiconductor capital equipment, including assembly equipment manufactured and marketed by the Company and, to a lesser extent, packaging materials such as those sold by the Company. Over time, these downturns and slowdowns have also adversely affected the Company s operating results. The Company believes such volatility will continue to characterize the industry and the Company s operations in the future.

Management Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The more significant areas involving the use of estimates in these financial statements include allowances for uncollectible accounts receivable, reserves for excess and obsolete inventory, carrying value and lives of fixed assets, goodwill, valuation allowances for deferred tax assets, deferred tax liabilities for undistributed earnings of certain foreign subsidiaries, tax contingencies, pension benefit liabilities, warranty expense and liabilities, share-based payments and litigation. Actual results could differ from those estimated.

Vulnerability to Certain Concentrations

Financial instruments which may subject the Company to concentrations of credit risk as of September 29, 2007 and December 29, 2007 consisted primarily of short term investments and trade receivables. The Company manages credit risk associated with investments by investing its excess cash in investment grade debt instruments of the U.S. Government, financial institutions, and corporations. The Company has established investment guidelines relative to diversification and maturities designed to maintain safety and liquidity. These guidelines are periodically reviewed and modified to take advantage of trends in yields and interest rates. The Company s trade receivables result primarily from the sale of semiconductor equipment, related accessories and replacement parts, and packaging materials to a relatively small number of large manufacturers in a highly concentrated industry. The Company continually assesses the financial strength of its customers to reduce the risk of loss. Write-offs of uncollectible accounts have historically not been significant.

Cash Equivalents

The Company considers all highly liquid investments with original maturities of three months or less when purchased to be cash equivalents.

Investments

Investments, other than cash equivalents, are classified as trading, available-for-sale or held-to-maturity , in accordance with Statements of Financial Accounting Standards (SFAS) SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities*, and depending upon the nature of the investment, its ultimate maturity date in the case of debt securities, and management s intentions with respect to holding the securities. Investments classified as trading are reported at fair market value, with unrealized gains or losses included in earnings. Investments classified as available-for-sale are reported at fair market value, with net unrealized gains or losses reflected as a separate component of shareholders equity (accumulated other comprehensive income (loss)). The fair market value of trading and available-for-sale securities is determined using quoted market prices at the balance sheet date. Investments classified as held-to-maturity are reported at amortized cost. Realized gains and losses are determined on the basis of specific identification of the securities sold.

Inventories

Inventories are stated at the lower of standard cost (which approximates actual cost on a first-in first-out basis) or market value, except for certain gold inventories on hand that are stated at market value which approximates actual cost (along with a corresponding liability) in accordance with the terms of the Company s gold supply financing agreement. The Company generally provides reserves for obsolete inventory and for inventory considered to be in excess of demand. In addition, the Company generally records as accrued expense inventory purchase commitments in excess of demand. Demand is generally defined as eighteen months forecasted future consumption for equipment, twelve months historical consumption for packaging materials and twenty-four months historical consumption for spare parts. 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 for the difference between the carrying value of its inventory and the lower of cost or market value, based upon assumptions about future demand, market conditions and the next cyclical market upturn.

Property, Plant and Equipment

Property, plant and equipment are carried at cost. The cost of additions and those improvements which increase the capacity or lengthen the useful lives of assets are capitalized while repair and maintenance costs are expensed as incurred. Depreciation and amortization are provided on a straight-line basis over the estimated useful lives as follows: buildings 25 to 40 years; machinery and equipment 3 to 10 years; and leasehold improvements are based on the shorter of the life of lease or life of asset. Purchased computer software costs related to business and financial systems are amortized over a five year period on a straight-line basis.

Long-Lived Assets

The Company s long-lived assets primarily include property, plant and equipment and goodwill. In accordance with the provisions of SFAS No. 142, *Goodwill and Other Intangible Assets* (SFAS 142), the Company s goodwill is not amortized. The standard also requires that an impairment test be performed to support the carrying value of goodwill at least annually, and whenever events occur that may impact the carrying value of goodwill. The fair value of the Company s goodwill is based upon our estimates of future cash flows and other factors. The Company manages and values its intangible technology assets in the aggregate, as one asset group, not by individual technology.

In accordance with SFAS 144, *Accounting for the Impairment or Disposal of Long-lived Assets,* the Company s property, plant and equipment is tested for impairment based on undiscounted cash flows when triggering events occur, and if impaired, written-down to fair value based on either discounted cash flows or appraised values. This standard also provides a single accounting model for long-lived assets to be disposed of by sale and establishes additional criteria that would have to be met to classify an asset as held for sale. The carrying amount of an asset or asset group is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset or asset group. Estimates of future cash flows used to test the recoverability of a long-lived asset or asset group must incorporate the entity s own assumptions about its use of the asset or asset group and must factor in all available evidence. SFAS 144 requires that long-lived assets be tested for recoverability whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Such events include significant under-performance relative to the expected historical or projected future operating results; significant changes in the manner of use of the assets; significant negative industry or economic trends and significant changes in market capitalization.

Foreign Currency Translation

The majority of the Company s business is transacted in U.S. dollars, however, the functional currency of certain subsidiaries is their respective local currencies. In accordance with SFAS No. 52, *Foreign Currency Translation,* for the Company s subsidiaries with a functional currency other than the U.S. dollar, gains and losses resulting from the translation of that functional currency into U.S. dollars for financial statement presentation are accumulated in the cumulative translation adjustment account as a separate component of shareholders equity (accumulated other comprehensive income (loss)). Cumulative translation adjustments are not adjusted for income taxes as they relate to indefinite investments in non-U.S. subsidiaries. Gains and losses resulting from foreign currency transactions are included in the determination of net income (loss). Net exchange and transaction losses were $0.5 million and $1.2 million for the three months ended December 30, 2006 and December 29, 2007, respectively.

Revenue Recognition

The Company recognizes revenue in accordance with Staff Accounting Bulletin (SAB) No. 104, *Revenue Recognition* (SAB 104). The Company recognizes revenue when persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, the price is fixed or determinable, the collectibility is reasonably assured, and it has completed its equipment installation obligations and received customer acceptance, or is otherwise released from its installation or customer acceptance obligations. In the event terms of the sale provide for a lapsing customer acceptance period, revenue is recognized based upon the expiration of the lapsing acceptance period or customer acceptance, whichever occurs first. The Company s standard terms are Ex Works (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.

Research and Development

The Company charges research and development costs associated with the development of new products to expense when incurred, except for pre-production machines which are carried as inventory until sold.

Income Taxes

Deferred income taxes are determined using the liability method in accordance with SFAS No. 109, *Accounting for Income Taxes* (SFAS 109). No provision is made for U.S. income taxes on the portion of undistributed earnings of foreign subsidiaries which are indefinitely reinvested in foreign operations. The Company records a valuation allowance to reduce deferred tax assets to the amount that is more likely than not to be realized. Significant judgment is required in determining the Company s annual tax rate and in evaluating tax positions. The Company establishes reserves when, despite its belief that the tax return positions are fully supportable, it is believed that certain positions are subject to challenge and the Company may not succeed. The Company is currently subject to multiple tax audits and believes it is unlikely the result of any of these audits would result in expense greater than current reserves. An adverse ruling could result in a significant cash outlay.

Effective September 30, 2007, the Company adopted the Financial Accounting Standards Board (FASB) Interpretation No. 48, *Accounting for Uncertainty in Income Taxes-an interpretation of FASB Statement No. 109* (FIN 48). FIN 48 prescribes, among other things, a recognition threshold and measurement attributes for the financial statement recognition and measurement of uncertain

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tax positions taken or expected to be taken in a company s income tax return. FIN 48 utilizes a two-step approach for evaluating uncertain tax positions accounted for in accordance with SFAS 109. 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. Upon adoption of FIN 48, the Company recorded a cumulative effect increase to retained earnings of $0.8 million.

Earnings per Share

Earnings per share (EPS) are calculated in accordance with SFAS No. 128, *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, performance-based restricted stock and share unit awards and subordinated convertible notes outstanding during the period, when such instruments are dilutive.

Extinguishment of Debt

In accordance with Accounting Principles Board (APB) Opinion No. 26, *Early Extinguishment of Debt* (APB 26), gains and losses from the extinguishment of debt are included in income (loss) from operations.

Equity-Based Compensation

The Company accounts for equity based compensation under the provisions of SFAS No. 123R, *Share-Based Payments* (SFAS 123R). SFAS 123R requires the recognition of the fair value of equity-based compensation expense in net income. The fair value of the Company s stock option awards are estimated using a Black-Scholes option valuation model. This model requires the input of highly subjective assumptions and elections including expected stock price volatility and the estimated life of each award. In addition, the calculation of 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 recognized as compensation expense over the vesting period of the award and the Company elected to use the straight-line method for awards granted after the adoption of SFAS 123R and continue to use a graded vesting method for awards granted prior to the adoption of SFAS 123R.

Recent Accounting Pronouncements