KULICKE & SOFFA INDUSTRIES INC
Form 10-K
December 11, 2008
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended September 27, 2008

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 number 0-121

KULICKE AND SOFFA INDUSTRIES, INC.

(Exact Name of Registrant as Specified in Its Charter)

PENNSYLVANIA **(State or other jurisdiction of incorporation or organization)**	**23-1498399** **(IRS Employer Identification No.)**
1005 VIRGINIA DRIVE,	
FORT WASHINGTON, PENNSYLVANIA **(Address of principal executive offices)**	**19034** **(Zip Code)**

(215) 784-6000

(Registrants telephone number, including area code)

N/A

(Former name, former address and former fiscal year, if changed since last report)

Securities registered pursuant to Section 12(b) of the Act:

None

Securities registered pursuant to Section 12(g) of the Act:

COMMON STOCK, WITHOUT PAR VALUE

(Title of each class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ¨ No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes ¨ No x

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

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):

Large accelerated filer ¨	Accelerated filer x	Non-accelerated filer ¨ (Do not check if a smaller reporting company)	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 March 29, 2008, the aggregate market value of the registrant s common stock held by non-affiliates of the registrant was approximately $247,631,429 based on the closing sale price as reported on The NASDAQ Global Market (Reference is made to Part II, Item 5 herein for a statement of assumptions upon which this calculation is based).

As of December 5, 2008 there were 60,881,343 shares of the registrant s common stock, without par value, outstanding.

Documents Incorporated by Reference

Portions of the registrant s Proxy Statement for the 2009 Annual Meeting of Shareholders to be filed on or about December 31, 2008 are incorporated by reference into Part II, Item 5 and Part III, Items 10, 11, 12, 13 and 14 herein of this Report. Such Proxy Statement, except for the parts therein which have been specifically incorporated by reference, shall not be deemed filed for the purposes of this Report on Form 10-K.

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KULICKE AND SOFFA INDUSTRIES, INC.

2008 Annual Report on Form 10-K

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PART I

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 (the Securities Act) and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act), and are subject to the safe harbor provisions created by statute. Such forward-looking statements include, but are not limited to, statements that relate to our future revenue, product development, demand forecasts, competitiveness, operating expenses, cash flows, profitability, gross margins, and benefits expected as a result of (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.*

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

Forward-looking statements are based on current expectations and involve risks and uncertainties. Our future results could differ significantly from those expressed or implied by our forward-looking statements. These risks and uncertainties include, without limitation, those described below and under the heading Risk Factors within our 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.

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 prediction of actual results.

Item 1. BUSINESS

Unless otherwise indicated, amounts provided throughout this Form 10-K relate to continuing operations only and accordingly do not include amounts attributable to our Wire business.

Kulicke and Soffa Industries, Inc. (K&S) designs, manufactures and markets capital equipment and packaging materials as well as services, maintains, repairs and upgrades equipment, all used to assemble semiconductor devices. Our customers primarily consist of Integrated Device Manufacturers (IDM) and subcontractor assembly facilities. According to VLSI Research, Inc., we are currently the world s leading supplier of semiconductor wire bonding assembly equipment.

Our goal is to be the technology leader and the lowest cost supplier in our main business segments which are:

- equipment; and
- packaging materials.

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, consolidating operations, moving certain manufacturing to Asia, moving a portion of 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 efficiencies while maintaining overall product quality.

Subsequent to year end, on September 29, 2008, we completed the sale of our Wire business for $155.0 million (subject to working capital adjustment) to W.C. Heraeus GmbH (Heraeus), a precious metals and technology company based in Hanau, Germany. The working capital requirements of our Wire business had become significant in recent years and we believe could no longer be justified. As a result of the sale of the Wire business, we improved our working capital position. Our Wire business had been previously reported within our Packaging Materials segment, but is now reported as discontinued operations. We expect the gain on the sale of our Wire business to be approximately $22.1 million to $25.1 million and will be recognized in the first quarter of fiscal 2009.

Subsequent to year end, on October 3, 2008, we completed the acquisition of substantially all of the assets of Orthodyne Electronics Corporation (Orthodyne), a privately held company based in Irvine, California. Orthodyne is the leading supplier of both wedge bonders and wedges (the consumable product used in wedge bonding) for the power management and hybrid module markets. In connection with the Orthodyne acquisition, we issued 7.1 million common shares with an estimated value of $46.2 million and paid $82.5 million in cash including working capital. A total of 15% of the purchase price was deposited into a third-party escrow account as partial security for Orthodyne s indemnification obligations under the asset purchase agreement. In addition we agreed to pay up to an additional $40.0 million in cash, if certain significant objectives related to gross profit are met by the Orthodyne business over the next three years.

We believe the Orthodyne acquisition will benefit us strategically by providing deeper penetration into the discrete side of the semiconductor market, and in the attractive power management and hybrid module markets. We expect wedge bonding will benefit from increased focus on energy efficient solutions in the years ahead, and that Orthodyne s market leading position in this area will allow us to address a larger Total Available Market (TAM). We now offer a broad suite of interconnect technologies for a variety of semiconductor packaging applications, and we believe the acquisition of Orthodyne will enhance our position as the leading supplier of interconnect solutions. We believe that on a combined basis, the sale of our Wire business and the purchase of Orthodyne will provide us with both the financial resources and technical focus necessary to pursue growth opportunities in other areas of our business.

K&S was incorporated in Pennsylvania in 1956. Our principal offices are located at 1005 Virginia Drive, Fort Washington, Pennsylvania 19034 and our telephone number is (215) 784-6000. We maintain a website with the address www.kns.com. We are not including the information contained on our website as a part of, or incorporating it by reference into, this filing. We make available free of charge (other than an investor s own Internet access charges) on or through our website our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and any amendments to these reports, as soon as reasonably practicable after the material is electronically filed with or otherwise furnished to the Securities and Exchange Commission (SEC). Our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports are also available on the SEC website at www.sec.gov.

Our fiscal year end for fiscal 2006, 2007 and 2008 was September 30, 2006, September 29, 2007, and September 27, 2008, respectively.

Business Environment

Global economic conditions affect demand for semiconductor capital equipment and packaging systems. Accordingly, our business and financial performance is impacted, both positively and negatively, by fluctuations in the macroeconomic environment. Conditions in the global economy deteriorated dramatically near the end of our fiscal year and in subsequent weeks. Current industry forecasts for calendar 2009 point to significant weakening in consumer and business electronics spending. We expect demand to remain weak and visibility to be poor through at least the second quarter of fiscal 2009.

Our equipment business is cyclical and highly dependent on semiconductor manufacturers expectation of capacity requirements for future integrated circuit (IC) demand, as well as their demand for new semiconductor manufacturing technologies. During the first quarter of fiscal 2009, our bookings slowed as customers respond to the weakening economic conditions.

Our Equipment segment sales have historically been highly volatile due to the semiconductor industry s cyclical need for new capability and capacity. Volatility is further influenced by the relative mix of IDM and subcontractor customers in any period, since subcontractors tend to purchase larger volumes in less predictable patterns. Variance in the mix of sales to IDMs and subcontractors can also affect our average selling price due to differences in volume purchases and different machine configurations required by each type of customer.

Packaging Materials unit sales tend to be less volatile than equipment sales as these products represent consumable purchases for our customers and volumes follow the trend of total semiconductor interconnect unit production.

We continually seek ways to maintain the strength of our balance sheet. Fiscal 2008 cash and investments of $186.1 million reflect a $16.2 million increase from fiscal 2007. Additionally, the impact of the Wire business divestiture and the Orthodyne acquisition, both of which closed after the year-end, was to add approximately $70.0 million in cash to our Consolidated Balance Sheet. The stronger cash position allows us to manage volatile buying patterns of our customers and continue to invest in research and development through downturns in the global economy and our industry.

Macroeconomic Factors: Foreign Currency

We are exposed to fluctuations in foreign currency exchange rates. Certain of our assets and liabilities are denominated in foreign currencies and are affected by changes in exchange rates for those currencies which impact our business. For fiscal year 2008, our foreign exchange transaction loss was $1.8 million compared to $0.1 million for fiscal 2007. The higher foreign exchange loss was due to the unfavorable exchange rates primarily driven by the Swiss Franc and Israeli Shekel. During fiscal 2008, we restructured our Swiss entity, which reduced our exposure to US Dollar/Swiss Franc fluctuations. To mitigate our market risk, we periodically adjust our subsidiaries holdings of foreign currency denominated working capital, and we may enter into foreign exchange forward contracts or other hedging instruments.

Technology Leadership

In March 2008, we launched a new generation of semiconductor assembly equipment the Power Series which currently features the IConn^{PS} and ConnX^{PS} ball bonders. The Power Series is setting new standards for performance, productivity, upgradeability, and ease of use. Sales of the IConn^{PS} machines began during the quarter ended June 28, 2008, and sales of the ConnX^{PS} began in our first quarter of fiscal 2009. Initial customer response has been positive, and performance for these machines has met or exceeded our expectations. The improvement in productivity and reliability represented by the Power Series translates into lower cost of ownership for our customers, and we believe will give us competitive advantage going forward. In 2008, the IConn^{PS} machine won the Advanced Packaging magazine award for top new product in its class, the second time in three years a K&S product received this recognition.

We are currently in the later development stages of the next addition to the Power Series our next generation die bonder machine, code named Discovery . Discovery will allow us to compete aggressively in the growing advanced packaging/stacked die market space. Alpha evaluations of Discovery have been underway with a select customer since July 2008, and the initial customer feedback has been very positive. We anticipate launching this machine in the second quarter of fiscal 2009.

Copper wire bonding continues to gain market interest as an alternative to gold wire bonding, as customers seek ways to reduce the cost of the wire bonding process. We believe copper is a viable alternative to gold, and a copper solution spanning all manufacturing materials and processes, not just those involved in wire bonding, will lead to greater customer adoption. Accordingly, we launched a copper wire bonding initiative with the goal of working with our customers and partners to find an integrated solution from the front-end through the back-end of the IC manufacturing process. Currently, copper represents a small but promising wire bonding technology that we believe will extend wire bonding s position as the dominant interconnect platform.

Through the acquisition of Orthodyne, we now are the leaders in the design and manufacture of wedge bonders for the power semiconductor, automotive power module, and sensor markets. Wedge bonders use wire or ribbon to attach high-current capacity aluminum wire to power semiconductors in discrete power devices or in modules, such as inverters for hybrid cars. Wedge bonds also attach large-diameter wire to semiconductors when packaging or reliability constraints do not allow the use of ball bonds.

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Products and Services

We offer a range of bonding equipment and packaging materials. The following table reflects net revenue by business segment for fiscal 2006, 2007 and 2008:

	Fiscal		
(in thousands)	**2006**	**2007**	**2008**
Equipment	$ 319,788	$ 316,718	$ 271,019
Packaging Materials	60,508	53,808	57,031
Total	$ 380,296	$ 370,526	$ 328,050

Equipment

We are a global leader in the design and manufacture of semiconductor assembly equipment. In recent years, we have expanded our product offerings beyond our core ball bonding products to include die bonders and wedge bonders. Ball bonders are used to connect very fine wires, typically made of gold, aluminum or copper, between the bond pads of the semiconductor device, or die, and the leads on its package. Die bonders are used to attach a die to the package which will house the device. We believe our equipment offers competitive advantages by providing customers with high productivity/throughput and superior package quality/process control. In particular, our ball bonders are capable of performing very fine pitch bonding as well as creating the sophisticated wire loop shapes that are needed in the assembly of advanced semiconductor packages. Our principal products are:

IC Ball Bonders

Automatic IC ball bonders represent a significant portion of our semiconductor equipment business. As part of our competitive strategy, we seek to continually improve our models and periodically introduce new or improved models of our IC ball bonders. Each new or improved model is designed to increase both productivity and process capability compared to the predecessor model.

- In March 2008, we introduced the Power Series IConn$^{\mathbf{PS}}$ ball bonder, which replaced our Maxum Ultra ball bonder and improves IC inter-connect performance with expanded technology that addresses advanced packaging requirements, copper wire bonding, and ultra fine pitch capability.

- In July 2008, the new ConnX$^{\mathbf{PS}}$ ball bonder replaced our Maxum Elite ball bonder. The ConnX$^{\mathbf{PS}}$ is engineered to provide optimal manufacturing capabilities for the lower pin count IC market and the rapidly growing LED market.

IC Die Bonders

We utilize the same competitive strategy for our IC die bonders as we use for our ball bonder business, including developing new models which both improve the productivity of the die bonders and increase the size of the market for our products.

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Wedge Bonders

Beginning in fiscal 2009, we offer through the Orthodyne acquisition, a broad portfolio of wedge bonding products.

- The 3600plus and 7200plus wedge bonders are currently the leading choices for power interconnects in both the power hybrid and semiconductor markets. The products were launched by Orthodyne in late 2007 and early 2008, respectively, and were rapidly accepted by customers.

- We will launch the latest 7600 series wedge bonder in the first half of calendar 2009. This product is targeted primarily at the market for small power packages and will extend our product portfolio to include reel-to-reel type applications.

- The PowerRibbon® is a leading-edge interconnect for power packages, and is continuing to gain market acceptance. Further extension of our PowerRibbon® range towards both larger and smaller sizes is expected to continue throughout 2009. We believe this will help further establish PowerRibbon® as a premier interconnect technology for small power packages and high power applications, including automotive hybrid modules or other high current applications.

Packaging Materials

We market a range of expendable tools for the semiconductor packaging and assembly market. Our packaging materials are designed for use on both our own and our competitors assembly equipment. Ball and wedge bonders use a capillary or wedge tool much like a sewing machine uses a needle.

Our expendable tools include a wide variety of capillaries, wedges tools, clamp tooling, cutter blades, wire guides, and wafer saw blades. These tools are developed for a broad range of semiconductor packaging applications such as:

- Capillaries and wedge tools- attach the wire to the semiconductor chip, guide the wire during loop formation, attach the wire to the package substrate and cut the wire allowing the bonding process to be repeated.

- Clamp tooling - holds the lead frame securely in place during the bonding process and are typically custom-designed to meet individual customer needs.

- Cutter blades- cut a large-diameter of wire in wedge bonding applications.

- Wire guides precisely guide the wire during the loop formation.

- Wafer saw blades - cut silicon wafers into individual semiconductor die.

In addition to the expandable tools discussed above, beginning in fiscal 2009 through the acquisition of Orthodyne, we will offer expendable wedge tools, clamp tooling, cutter blades and wire guides used for wedge and ribbon bonders. The wedge tools are used to attach the wire to the die or lead frame, while a precision wire guide is used to guide the wire during the loop formation. For wedge bonding with large-diameter wire, a cutter blade is used to cut the wire after the bonding process is complete and allow the process to be repeated. Clamp tooling products are used to securely hold the lead frame in place during the bonding process, and are typically custom-designed to meet individual customer needs. Orthodyne s expendable products business is well positioned to benefit from future synergies with our existing Packaging Materials business.

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Customers

Our major customers include large semiconductor manufacturers and their subcontract assemblers and vertically integrated manufacturers of electronic systems. Customers may vary from year-to-year based on their capital investment and operating expense budgets, and overall industry trends.

The following chart reflects our top ten end-use customers, based on net revenue, for each of the last three fiscal years:

Fiscal 2006	Fiscal 2007	Fiscal 2008
1. STATS ChipPAC *	1. Advanced Semiconductor Engineering*	1. Advanced Semiconductor Engineering
2. Advanced Semiconductor Engineering	2. Siliconware Precision Industries, Ltd.	2. STATS ChipPac
3. Texas Instruments	3. Amkor Technology Inc.	3. Amkor Technology Inc.
4. Samsung	4. Samsung	4. Siliconware Precision Industries, Ltd.
5. Renesas	5. Hynix Semiconductor Inc.	5. Sandisk Semiconductor
6. Freescale/Motorola	6. STATS ChipPAC	6. Texas Instruments
7. NEC	7. Texas Instruments	7. ST Microelectronics
8. Amkor	8. Sandisk Semiconductor	8. Samsung
9. Spansion	9. ST Microelectronics	9. NXP Semiconductors
10. Global Advanced Packaging	10. Chipmos Technology Inc.	10. King Yuan Electronics Company

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

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

International Operations

Our customers are primarily located or have operations in the Asia/Pacific region. Approximately 97% of our net revenue for fiscal 2006 and 2007 and 96% for fiscal 2008 were for shipments to customer locations outside of the United States, and we expect sales outside of the United States to continue to represent a substantial majority of our future revenue.

For a discussion of our financial information about geographic areas, see our Consolidated Financial Statements and corresponding Notes included in Item 8 of this report.

Sales and Customer Support

We believe providing comprehensive worldwide sales, service, training, and support are important competitive factors in the semiconductor equipment industry, and we manage these functions through our global customer operations group. We rely on a combination of a direct sales force, manufacturers representatives and distributors for the sale of our various product lines. We provide timely customer service and sales support by positioning our sales service representatives near customer facilities, which provides customers with the ability to place orders locally and to deal with service and support personnel who speak the customer s language and are familiar with local country practices. In order to support our customers whose semiconductor assembly operations are located primarily outside of the United States, we have sales, service, and support personnel based in China, Japan, Korea, Malaysia, the Philippines, Singapore, Switzerland, Taiwan, Thailand, and throughout Europe, and applications labs in China, Israel, Japan, Singapore, Switzerland and Taiwan.

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Backlog

The following table reflects our backlog as of September 29, 2007 and September 27, 2008:

	As of	
(in thousands)	**September 29, 2007**	**September 27, 2008**
Backlog	$ 85,563	$ 49,508

Our backlog consists of customer orders that are scheduled for shipment within the next 12 months. A majority of our orders are subject to cancellation or deferral by the customer with limited or no penalties. Also, customer demand for our products can vary dramatically without prior notice. Because of the volatility of customer demand, possibility of customer changes in delivery schedules or cancellations and potential delays in product shipments, our backlog as of any particular date may not be indicative of revenue for any succeeding period.

Manufacturing

We believe excellence in manufacturing can create a competitive advantage, both through lower costs and superior responsiveness. In order to achieve these goals, we seek to manage our manufacturing operations through a single organization and believe fewer, larger factories take advantage of economies of scale and result in cost savings through lower manufacturing costs.

Equipment

Our equipment manufacturing activities consist primarily of integrating outsourced parts and subassemblies and testing finished products to customer specifications. During fiscal 2007 and 2008, most of our ball bonder manufacturing took place in Singapore. Our die bonder manufacturing took place in Switzerland and Suzhou, China. We believe the outsourcing manufacturing model enables us to minimize our fixed costs and capital expenditures and focus on product differentiation through technology innovations in system design and manufacturing quality control. Just-in-time inventory management has reduced our manufacturing cycle times and lowered our on-hand inventory requirements. We have ISO 9001 certification for our equipment manufacturing facilities in Singapore, Switzerland and China, and we have ISO 14001 certifications for our equipment manufacturing facilities in Singapore and China.

Packaging Materials

We manufacture expendable tools at our facility in Yokneam, Israel and expendable tools and blades for wafer sawing at our facility in Suzhou, China. Both facilities are ISO 9001 and ISO 14001 certificated.

Research and Product Development

Many of our customers generate technology roadmaps describing the future manufacturing capability requirements needed to support their product development plans. Our research and product development activities are organized so that our products anticipate our customers requirements. This happens through continuous improvement of our existing products, through upgrades for products already installed in customers facilities or through the creation of next-generation products. Examples of our continuous improvement strategy include our copper kits for existing ball bonder models. In addition, our next-generation products include the Power Series IConn^{PS} ball bonder and ConnX^{PS} ball bonder, both introduced during fiscal 2008. In addition, a development program is underway for our next generation die bonders. Our goal is technology leadership in each of our major product lines.

Research and development expense was $36.3 million, $49.1 million, and $59.9 million during fiscal 2006, 2007 and 2008, respectively.

Intellectual Property

Where circumstances warrant, we seek to obtain patents on inventions governing new products and processes developed as part of our ongoing research, engineering, and manufacturing activities. We currently hold a number of United States patents, some of which have foreign counterparts. We believe the duration of our patents generally exceeds the life cycles of the technologies disclosed and claimed in the patents. Additionally, we believe much of our important technology resides in our trade secrets and proprietary software.

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Competition

The market for semiconductor equipment and packaging materials products is intensely competitive. Significant competitive factors in the semiconductor equipment market include price, as well as speed/throughput, production yield, process control, and customer support, each of which contribute to lower the overall cost per package being manufactured. Our major equipment competitors include:

- Ball bonders: ASM Pacific Technology and Shinkawa
- Die bonders: ASM Pacific Technology, ESEC, Renesas and Shinkawa
- Wedge bonders: F&K, Delvotec, Hesse & Knipps and Cho-Onpa

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

- Bonding tools: CoorsTek, PECO, and Small Precision Tools, Inc.
- Saw blades: Disco Corporation
- Wedge bonding tools: Micro-Mechanics, and Small Precision Tool

In each of the markets we serve, we face competition and the threat of competition from established competitors and potential new entrants, some of which may have greater financial, engineering, manufacturing, and marketing resources.

Environmental Matters

We are subject to various federal, state, local and foreign laws and regulations governing, among other things, the generation, storage, use, emission, discharge, transportation and disposal of hazardous materials and the health and safety of our employees. In addition, we are subject to environmental laws which may require investigation and cleanup of any contamination at facilities we own or operate or at third party waste disposal sites we use or have used.

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

Employees

As of September 27, 2008, we had 2,496 regular full-time employees and 77 temporary and contract workers worldwide.

Subsequent to year end on November 12, 2008, we announced a headcount reduction of 240 positions and a cancellation of annual salary increases scheduled for January 1, 2009. We took these actions to reduce costs due to deteriorating conditions in the global economy and projected weaker demand for our products and services.

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Executive Officers of the Company

The following table sets forth certain information regarding the executive officers of the Company as of September 27, 2008. Our executive officers are appointed by and serve at the discretion of the Board of Directors.

Name	Age	First Became an Officer (calendar year)	Position
C. Scott Kulicke	59	1976	Chairman of the Board of Directors and Chief Executive Officer
Maurice E. Carson	51	2003	Senior Vice President and Chief Financial Officer
Christian Rheault	43	2005	Senior Vice President, Equipment segment
Charles Salmons	53	1992	Senior Vice President, Engineering
Jagdish (Jack) Belani	55	1999	Senior Vice President, Packaging Materials segment and Corporate Marketing

C. Scott Kulicke has served as Chief Executive Officer since 1979 and Chairman of the Board of Directors since 1984. His present term as a director expires in 2011. Mr. Kulicke earned a Bachelor of Science degree in Economics from the Wharton School of Business of the University of Pennsylvania.

Maurice E. Carson became Senior Vice President and Chief Financial Officer (CFO) in November 2007 after serving as Vice President, CFO since September 2003. From 1996 until 2003, Mr. Carson served in various finance positions culminating as the Vice President, Finance and Corporate Controller for Cypress Semiconductor Corporation. Mr. Carson earned a Bachelor of Science degree from the University of Colorado and a Masters in Business Administration degree from the University of Chicago.

Christian Rheault became Senior Vice President, Equipment segment in November 2007 after serving as Vice President, Equipment segment since 2006. Prior to that time, he served as Vice President and General Manager of our Ball Bonder Business Unit and Director of Strategic Marketing and Vice President, General Manager of the Microelectronics Business Unit. Mr. Rheault earned an Electrical Engineering degree from Laval University, Canada and a DSA (Business Administration Diploma) from Sherbrooke University, Canada.

Charles Salmons has served as Senior Vice President, Engineering since March 2008, after serving as Senior Vice President, Acquisition Integration (September 2006-March 2008), Senior Vice President, Wafer Test (November 2004-September 2006), Senior Vice President, Product Development (September 2002-November 2004), Senior Vice President Operations (1999 to 2004), General Manager, Ball Bonder operations (1998-1999), and Vice President of Operations (1994-1998). Mr. Salmons earned a Masters in Business Administration degree from LaSalle University.

Jagdish (Jack) G. Belani served as Senior Vice President of Packaging Materials segment and Corporate Marketing from November 2005 until the sale of our Wire business on September 29, 2008. From 1999 until November 2005, Mr. Belani served as Vice President of Wire Bonding and Corporate Marketing; Vice President of Business Units and Marketing, President of the Wire Bonding Division and President of XLAM, our high density substrate group. Mr. Belani earned a Bachelor of Science degree in chemical engineering from Indian Institute of Technology, Madras, India; a Masters of Science degree in metallurgical and materials engineering from Illinois Institute of Technology and a Juris Doctor from the University of Santa Clara.

Item 1A. Risks Related to Our Business and Industry

Our operating results and financial condition are adversely impacted by the current worldwide economic conditions.

In 2008, general worldwide economic conditions deteriorated sharply due to the sub-prime lending crisis, general credit market crisis, collateral effects on the finance and banking industries, decreased consumer confidence, reduced corporate profits and capital spending, and liquidity concerns. These conditions make it difficult for our customers, our vendors and us to accurately forecast and plan future business activities, and have caused customers to reduce spending on our products. We cannot predict the timing or duration of the global economic crisis or the timing or strength of a subsequent economic recovery. If the economy or markets in which we operate experience continued weakness at current levels or deteriorate further, our business, financial condition and results of operations will be materially and adversely affected.

The semiconductor industry is volatile with sharp periodic downturns and slowdowns. The current downturn has been made worse by deteriorating global economic conditions.

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

The semiconductor industry is volatile, with periods of rapid growth followed by industry-wide retrenchment. These periodic downturns and slowdowns have adversely affected our business, financial condition and operating results. They have been characterized by, among other things, diminished product demand, excess production capacity, and accelerated erosion of selling prices. These downturns historically have severely and negatively affected the industry s demand for capital equipment, including the assembly equipment and the packaging materials that we sell. The sharp deterioration in worldwide economic conditions that began in mid-2008 has made the current industry downturn more severe than any recent downturn. There can be no assurances regarding levels of demand for our products, especially in light of current economic conditions. In any case, we believe the historical volatility of our business both upward and downward will persist.

We may experience increasing price pressure.

Our business strategy focuses on product performance, customer service and price. We continually seek to reduce our cost structure including moving operations to lower cost areas and reducing other operating costs. We may not be able to continue to compete on the basis of performance, service, and price; therefore, our financial condition and operating results may be materially and adversely affected.

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

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

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

- market downturns;
- the mix of products we sell because, for example:
  - certain lines of equipment within our business segments are more profitable than others; and

some sales arrangements have higher gross margins than others;

cancelled or deferred orders;

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- competitive pricing pressures may force us to reduce prices;
- higher than anticipated costs of development or production of new equipment models;
- the availability and cost of the components for our products;
- delays in the development and manufacture of our new products and upgraded versions of our products and market acceptance of these products when introduced;
- customers delay in purchasing our products due to anticipation that we or our competitors may introduce new or upgraded products; and
- competitors introduction of new products.

Many of our expenses, such as research and development, selling, general and administrative expenses, and interest expense, do not vary directly with our net revenue. Our research and development efforts include long-term projects lasting a year or more, which require significant investments. In order to realize the benefits of these projects, we believe that we must continue to fund them during periods when our revenue has declined. As a result, a decline in our net revenue would adversely affect our operating results. In addition, if we were to incur additional expenses in a quarter in which we did not experience comparable increased net revenue, our operating results would decline. In a downturn, we may have excess inventory, which is required to be written off. Some of the other factors that may cause our expenses to fluctuate from period-to-period include:

- timing and extent of our research and development efforts;
- severance, resizing, and other costs of relocating facilities;
- inventory write-offs due to obsolescence; and
- increases in the cost of labor or materials.

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

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

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

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

Approximately 97% of our net sales for fiscal 2006 and 2007 and 96% for fiscal 2008 were to customers located outside of the United States, in particular to customers located in the Asia/Pacific region.

Our future performance will depend on our ability to continue to compete in foreign markets, particularly in the Asia/Pacific region. These economies have been highly volatile, resulting in significant fluctuation in local currencies, and political and economic instability. These conditions may continue or worsen, which may materially and adversely affect our business, financial condition and operating results.

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

- risks of war and civil disturbances or other events that may limit or disrupt manufacturing and markets;
- seizure of our foreign assets, including cash;
- longer payment cycles in foreign markets;
- international exchange restrictions;
- restrictions on the repatriation of our assets, including cash;
- significant foreign and United States taxes on repatriated cash;
- difficulties of staffing and managing dispersed international operations;
- possible disagreements with tax authorities regarding transfer pricing regulations;
- episodic events outside our control such as, for example, an outbreak of Severe Acute Respiratory Syndrome or influenza;
- tariff and currency fluctuations;
- changing political conditions;
- labor conditions and costs;
- foreign governments monetary policies and regulatory requirements;
- less protective foreign intellectual property laws; and

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

Because most of our foreign sales are denominated in U.S. dollars, an increase in value of the U.S. dollar against foreign currencies will make our products more expensive than those offered by some of our foreign competitors. Our ability to compete overseas may be materially and adversely affected by a strengthening of the U.S. dollar against foreign currencies.

Our international operations also depend upon favorable trade relations between the United States and those foreign countries in which our customers, subcontractors and materials suppliers have operations. A protectionist trade environment in either the United States or those foreign countries in which we do business, such as a change in the current tariff structures, export compliance or other trade policies, may materially and adversely affect our ability to sell our products in foreign markets.

We are exposed to fluctuations in currency exchange rates that could negatively impact our financial results and cash flows.

Because a significant portion of our business is conducted outside the United States, we face exposure to adverse movements in foreign currency exchange rates which could have a material adverse impact on our financial results and cash flows. Historically, our primary exposures have related to net working capital exposures denominated in currencies other than the foreign subsidiaries functional currency, and remeasurement of our foreign subsidiaries net monetary assets from the subsidiaries local currency into the subsidiaries functional currency. In general, an increase in the value of the U.S. dollar could require certain of our foreign subsidiaries to record translation and remeasurement gains. Conversely, a decrease in the value of the U.S. dollar could require certain of our foreign subsidiaries to record losses on translation and remeasurement. An increase in the value of the U.S. dollar could increase the cost to our customers of our products in those markets outside the United States where we sell in U.S. dollars, and a weakened U.S. dollar could increase the cost of local operating expenses and procurement of raw materials. Our primary exposures include the Swiss Franc, Chinese Yuan, Euro, Singapore Dollar, Israeli Shekel and Japanese Yen. Our board of directors has granted management with limited authority to enter into foreign exchange forward contracts and other instruments designed to minimize the short term impact currency fluctuations have on our business. We have entered into foreign exchange forward contracts and may enter into additional foreign exchange forward contracts and other instruments in the future. Our attempts to hedge against these risks may not be successful and may result in a material adverse impact on our financial results and cash flows.

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

As part of our ongoing efforts to further reduce our cost structure, we may seek to consolidate our manufacturing facilities. If this occurs, we may incur significant and unexpected costs, delays and disruptions to our business during this consolidation process. Because of unanticipated events, including the actions of governments, suppliers, employees or customers, we may not realize the synergies, cost reductions and other benefits of any consolidation to the extent or within the timeframe that we currently expect.

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

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

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

We typically operate our business with limited visibility of future demand. As a result, we sometimes experience inventory shortages or excesses. We generally order supplies and otherwise plan our production based on internal forecasts for demand. We have in the past, and may again in the future, fail to accurately forecast demand for our products. This has led to, and may in the future lead to, delays in product shipments or, alternatively, an increased risk of inventory obsolescence. If we fail to accurately forecast demand for our products, our business, financial condition and operating results may be materially and adversely affected.

Alternative packaging technologies may render some of our products obsolete.

Alternative packaging technologies have emerged that may improve device performance or reduce the size of an integrated circuit package, as compared to traditional die bonding. These technologies include flip chip and chip scale packaging. Some of these alternative technologies eliminate the need for wires to establish the electrical connection between a die and its package. The semiconductor industry may, in the future, shift a significant part of its volume into alternative packaging technologies, such as those discussed above, which do not employ our products. If a significant shift to alternative packaging technologies were to occur, demand for our equipment and related packaging materials may be materially and adversely affected.

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

The semiconductor manufacturing industry is highly concentrated, with a relatively small number of large semiconductor manufacturers and their subcontract assemblers and vertically integrated manufacturers of electronic systems purchasing a substantial portion of our semiconductor assembly equipment and packaging materials. Sales to a relatively small number of customers account for a significant percentage of our net sales. During fiscal 2006, sales to STATS Chippac, our largest customer accounted for 10.7% of our net revenue. During fiscal 2007 and 2008, sales to Advanced Semiconductor Engineering, our largest customer accounted for 10.7% and 9.9% of our net revenue, respectively.

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

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

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

- lack of control over the manufacturing process for components and subassemblies;
- changes in our manufacturing processes, in response to changes in the market, which may delay our shipments;
- our inadvertent use of defective or contaminated raw materials;
- relatively small operations and limited manufacturing resources of some of our suppliers, which may limit their ability to manufacture and sell subassemblies, components or parts in the volumes we require and at acceptable quality levels and prices;
- reliability or quality problems with certain key subassemblies provided by single source suppliers as to which we may not have any short term alternative;
- shortages caused by disruptions at our suppliers and subcontractors for a variety of reasons, including work stoppage or fire, earthquake, flooding or other natural disasters;
- delays in the delivery of raw materials or subassemblies, which, in turn, may delay our shipments;
- loss of suppliers as a result of consolidation of suppliers in the industry; and
- loss of suppliers because of their bankruptcy or insolvency as a result of the global economic crisis.

If we are unable to deliver products to our customers on time for these or any other reasons, or we are unable to meet customer expectations as to cycle time, or we may be unable to maintain acceptable product quality or reliability and our business, financial condition and operating results may be materially and adversely affected.

We may acquire or divest businesses or enter into joint ventures or strategic alliances, which may materially affect our business, financial condition and operating results.

We continually evaluate our portfolio of businesses and may decide to buy or sell businesses or enter into joint ventures or other strategic alliances. During fiscal 2007, we acquired Alphasem, a manufacturer of die bonders. During fiscal 2009, we both acquired the assets of Orthodyne, a manufacturer of wedge bonders and heavy wire wedges, and sold our Wire business to Heraeus, a precious metals and technology group that has a leading position in its markets. We may be unable to successfully integrate Orthodyne with our existing businesses and successfully implement, improve and expand our systems, procedures and controls to accommodate the acquisition. In addition, we may not ultimately achieve anticipated benefits or cost reductions from the divestiture of our Wire business and may incur significant restructuring costs. These transactions may place additional constraints on our management and current labor force. These transactions may also require significant resources from our legal, finance and business teams. If we fail to successfully manage the risks associated with these transactions, our business, financial condition and operating results may be materially and adversely affected.

We may from time to time in the future seek to acquire or divest other businesses or enter into alliances with other companies. Significant acquisitions and alliances may increase demands on management, engineering, financial resources and information and internal control systems. Our success with respect to acquisitions and alliances will depend, in part, on our ability to manage and integrate acquired businesses and alliances with our existing businesses and to successfully implement, improve and expand our systems, procedures and controls. In addition, we may divest existing businesses, which would cause a decline in revenues and may make our financial results more volatile. If we fail to integrate and manage acquired businesses successfully or to manage the risks associated with divestitures, joint ventures or other alliances, our business, financial condition and operating results may be materially and adversely affected.

The market price of our common shares and our earnings per share may decline as a result of any acquisitions or divestitures.

The market price of our common shares may decline as a result of any acquisitions or divestitures made by us, including among other things, the acquisition of Orthodyne and the sale of our Wire business, if we do not achieve the perceived benefits of such acquisition or divestiture as rapidly or to the extent anticipated by financial or industry analysts or if the effect on our financial results is not consistent with the expectations of financial or industry analysts. In addition, the failure to achieve expected benefits and unanticipated costs relating to our acquisitions could reduce our future earnings per share.

We may be unable to continue to compete successfully in the highly competitive semiconductor equipment and packaging materials industries.

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

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

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

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

Our success depends in part on our proprietary technology. To protect this technology, we rely principally on contractual restrictions (such as nondisclosure and confidentiality provisions) in our agreements with employees, subcontractors, vendors, consultants and customers and on the common law of trade secrets and proprietary know-how. We also rely, in some cases, on patent and copyright protection. We may not be successful in protecting our technology for a number of reasons, including the following:

- employees, subcontractors, vendors, consultants and customers may violate their contractual agreements, and the cost of enforcing those agreements may be prohibitive, or those agreements may be unenforceable or more limited than we anticipate;
- foreign intellectual property laws may not adequately protect our intellectual property rights; and
- our patent and copyright claims may not be sufficiently broad to effectively protect our technology; our patents or copyrights may be challenged, invalidated or circumvented; or we may otherwise be unable to obtain adequate protection for our technology.

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

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

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

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

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

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

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

Compliance with existing or future, land use, environmental and health and safety laws and regulations may: (1) result in significant costs to us for additional capital equipment or other process requirements, (2) restrict our ability to expand our operations and/or (3) cause us to curtail our operations. We also could incur significant costs, including cleanup costs, fines or other sanctions and third-party claims for property damage or personal injury, as a result of violations of or liabilities under such laws and regulations. We cannot assure you that any costs or liabilities to comply with or imposed under these laws and regulations will not materially and adversely affect our business, financial condition and operating results.

We may be unable to generate enough cash to repay our debt.

Our ability to make payments on our indebtedness and to fund planned capital expenditures and other activities will depend on our ability to generate cash in the future. If our convertible debt is not converted to shares of our common shares, we will be required to make annual cash interest payments of $1.7 million in fiscal 2009, $1.6 million in fiscal 2010, $1.0 million in fiscal 2011 and $1.0 million in fiscal 2012 on an aggregate $204.4 million of convertible subordinated debt (assuming that we do not purchase any additional outstanding Subordinated Convertible Notes). As of September 27, 2008, principal payments of $72.4 million, $65.0 million and $110.0 million on the convertible subordinated debt were due in fiscal 2009, 2010 and 2012, respectively. During October 2008, $43.1 million of our 0.5% Subordinated Convertible Notes were repurchased. Accordingly as of December 1, 2008, we repaid the $29.3 million in principal payments that were due in fiscal 2009. Our ability to make payments on our indebtedness is affected by the volatile nature of our business, and general economic, competitive and other factors that are beyond our control, including deteriorating global economic conditions. Our indebtedness poses risks to our business, including that:

- insufficient cash flow from operations to repay our outstanding indebtedness when it becomes due may force us to sell assets, or seek additional capital, which we may be unable to do at all or on terms favorable to us; and

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

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We cannot assure you that our business will generate cash in an amount sufficient to enable us to service interest, principal and other payments on our debt, including the notes, or to fund our other liquidity needs. We are not restricted under the agreements governing our existing indebtedness from incurring additional debt in the future. If new debt is added to our current levels, our leverage and our debt service obligations would increase and the related risks described above could intensify.

We have the ability to issue additional equity securities, which would lead to dilution of our issued and outstanding common shares.

The issuance of additional equity securities or securities convertible into equity securities will result in dilution of existing shareholders equity interests in us. Our board of directors has the authority to issue, without vote or action of shareholders, preferred shares in one or more series, and has the ability to fix the rights, preferences, privileges and restrictions of any such series. Any such series of preferred shares could contain dividend rights, conversion rights, voting rights, terms of redemption, redemption prices, liquidation preferences or other rights superior to the rights of holders of our common shares. In addition, we are authorized to issue, without shareholder approval, up to an aggregate of 200 million common shares, of which approximately 60,881,343 million shares were outstanding as of December 5, 2008. We are also authorized to issue, without shareholder approval, securities convertible into either common shares or preferred shares.

Weaknesses in our internal controls and procedures could result in material misstatements in our financial statements.

Pursuant to the Sarbanes-Oxley Act, management is responsible for establishing and maintaining adequate internal control over financial reporting. Our internal controls over financial reporting are processes designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with U.S. generally accepted accounting principles. A material weakness is a control deficiency, or combination of control deficiencies, that results in a more than remote likelihood that a material misstatement of annual or interim financial statements will not be prevented or detected.

Our internal controls may not prevent all potential errors or fraud, because any control system, no matter how well designed and implemented, can only provide reasonable and not absolute assurance that the objectives of the control system will be achieved. We cannot assure you that we or our independent registered public accountants will not in the future identify other material weaknesses in our internal controls, which could adversely affect our ability to insure proper financial reporting and could affect investor confidence in us and the price of our common shares.

Accounting methods, including but not limited to the accounting method for convertible debt securities with net share settlement, such as our 0.875% Subordinated Convertible Notes, are subject to change.

In calculating our diluted earnings per share, we currently account for the 0.875% Subordinated Convertible Notes in accordance with Financial Accounting Standards Board (FASB) Emerging Issues Task Force (EITF) Issue No. 90-19, *Convertible Bonds with Issuer Option to Settle for Cash upon Conversion* (EITF 90-19). The accounting method for a convertible debt security that meets the requirements of EITF 90-19 is similar to the accounting for non-convertible debt. We recognize interest expense at the stated coupon rate, and shares potentially issuable upon conversion of the debt are excluded from the calculation of diluted earnings per share until the market price of our common shares exceeds the conversion price (i.e., the conversion price is in the money). Once the conversion price is in the money, the shares that we would issue upon assumed conversion of the debt are included in the calculation of fully diluted earnings per share using the treasury stock method. No separate value is attributed to the conversion feature of the debt at the time of issuance.

In May 2008, the FASB issued FASB Staff Position (FSP) APB 14-1, which is effective for fiscal years beginning after December 15, 2008. FSP APB 14-1 specifies that issuers of convertible debt instruments that may be settled in cash upon conversion should separately account for the liability and equity components in a manner that will reflect the entity s nonconvertible debt borrowing rate when interest cost is recognized in subsequent periods.

As compared to the current accounting method, the proposal would reduce the amount recognized as debt and increase the amount recognized as shareholder s equity at the time of issuance. The amount of debt recognized at time of issuance would increase over the life of the notes, with a corresponding increase in interest expense and reduction of net income and earnings per share (net of tax), for the amortization of the original issue discount. We will adopt FSP APB 14-1 beginning fiscal 2010, with retrospective application to financial statements for periods prior to the date of adoption.

This change in the accounting method for convertible debt securities will have an adverse impact on our reported and future results of operations, and could adversely affect the trading price of our common shares or the trading price of the notes.

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Other Risks

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

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

- classify our board of directors into four classes, with one class being elected each year;
- permit our board to issue blank check preferred shares without shareholder approval; and
- prohibit us from engaging in some types of business combinations with a holder of 20% or more of our voting securities without super-majority board or shareholder approval.

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

Terrorist attacks, or other acts of violence or war may affect the markets in which we operate and our profitability.

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

Provisions of our Subordinated Convertible Notes could discourage an acquisition of us by a third party.

Certain provisions of our outstanding Subordinated Convertible Notes could make it more difficult or more expensive for a third party to acquire us. Upon the occurrence of certain transactions constituting a fundamental change, holders of the Subordinated Convertible Notes will have the right, at their option, to require us to repurchase all of their notes at a price equal to 100% of the principal amount of notes to be repurchased, plus accrued and unpaid interest, plus a premium, if applicable. In addition, pursuant to the terms of the 0.875% Subordinated Convertible Notes, we may not enter into certain mergers unless, among other things, the surviving entity assumes all of our obligations under the indenture and the notes.

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Item 2. PROPERTIES

The following table reflects our major operating facilities:

Facility	Approximate Size	Function	Products Manufactured	Lease Expiration Date (4)
Fort Washington, Pennsylvania	88,000 sq. ft. (1)	Corporate headquarters, technology center, sales and service	Not applicable	September 2028
Suzhou, China	136,386 sq. ft. (1)	Manufacturing, technology center	Die bonders, capillaries, dicing blades	October 2022
Singapore	77,500 sq. ft. (1)	Manufacturing, technology center	Wire bonders	August 2011
Yokneam, Israel	53,820 sq. ft. (2)	Manufacturing, technology center	Capillaries, wedges, die collets	N/A
Berg, Switzerland	61,896 sq. ft. (2)	Manufacturing, technology center	Die bonders	N/A
Singapore (5)	38,405 sq. ft. (1)	Manufacturing, technology center	Bonding wire	May 2009
Thalwil, Switzerland (5)	15,177 sq. ft. (1)	Manufacturing	Bonding wire	(3)

(1) Leased.
(2) Owned.
(3) Cancelable semi-annually upon six months notice.
(4) Includes lease extension periods at the Company s option.
(5) Lease for facility assigned to Heraus upon completion of sale of Wire business on September 29, 2008.

In addition, we rent space for sales and service offices in: China, Germany, Japan, Korea, Malaysia, the Philippines, Taiwan, Thailand, and the United States. We believe our facilities generally are in good condition.

Item 3. LEGAL PROCEEDINGS

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

Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

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PART II

Item 5. MARKET FOR REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock is traded on The Nasdaq Global Market (Nasdaq) under the symbol KLIC. The following table reflects the ranges of high and low sale prices for our common stock as reported on Nasdaq for the periods indicated:

	Fiscal year ended			
	September 29, 2007		September 27, 2008	
	High	Low	High	Low
First Quarter	$ 9.67	$ 7.92	$ 8.89	$ 6.47
Second Quarter	$ 10.19	$ 8.17	$ 6.93	$ 4.55
Third Quarter	$ 11.04	$ 9.11	$ 7.95	$ 4.66
Fourth Quarter	$ 12.46	$ 7.34	$ 7.49	$ 4.53

On December 5, 2008, there were approximately 426 holders of record of the shares of outstanding common stock. The payment of dividends on our common stock is within the discretion of our board of directors; however, we have not historically paid any dividends on our common stock. In addition, we do not expect to declare dividends on our common stock in the near future, since we intend to retain earnings to finance the growth of our business.

For the purpose of calculating the aggregate market value of shares of our common stock held by nonaffiliates, as shown on the cover page of this report, we have assumed all of our outstanding shares were held by nonaffiliates except for shares held by our directors and executive officers. However, this does not necessarily mean that all directors and executive officers of the Company are, in fact, affiliates of the Company, or there are no other persons who may be deemed to be affiliates of the Company. Further information concerning the beneficial ownership of our executive officers, directors and principal shareholders will be included in our Proxy Statement for the 2009 Annual Meeting of Shareholders to be filed with the Securities and Exchange Commission on or about December 31, 2008.

Equity Compensation Plan Information

The information required hereunder will appear under the heading Equity Compensation Plans in our Proxy Statement for the 2009 Annual Meeting of Shareholders which information is incorporated herein by reference.

Recent Sales of Unregistered Securities and Use of Proceeds

None.

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Item 6. SELECTED FINANCIAL DATA

The following table reflects selected historical consolidated financial data derived from the consolidated financial statements of Kulicke and Soffa Industries, Inc. and subsidiaries as of and for each of the five fiscal years ended 2004, 2005, 2006, 2007 and 2008. All periods have been reclassified to reflect our Wire business as a discontinued operation. Due to this change, fiscal 2004, 2005, 2006 and 2007 do not agree to our previously issued consolidated financial statements. This data should be read in conjunction with our consolidated financial statements, including notes and other financial information included elsewhere in this report or in annual reports or current reports on Form 8-K filed previously by us in respect of the fiscal years identified in the column headings of the tables below.

			Fiscal		
(in thousands, except per share amounts)	**2004**	**2005**	**2006**	**2007**	**2008**
Statement of Operations Data:					
Net revenue:					
Equipment	$ 361,244	$ 201,608	$ 319,788	$ 316,718	**$ 271,019**
Packaging Materials	62,887	58,394	60,508	53,808	**57,031**
Total net revenue	424,131	260,002	380,296	370,526	**328,050**
Cost of sales:					
Equipment	208,616	115,645	178,599	188,055	**165,499**
Packaging Materials	28,008	27,409	28,474	27,035	**28,758**
Total cost of sales (1)	236,624	143,054	207,073	215,090	**194,257**
Operating expenses:					
Equipment	79,674	70,628	89,684	113,444	**122,302**
Packaging Materials	18,236	22,578	23,316	24,480	**26,971**
U.S. pension plan termination					**9,152**
Gain on sale of assets		(1,690)	(4,544)		
Total operating expenses (1)	97,910	91,516	108,456	137,924	**158,425**
Income (loss) from operations:					
Equipment	72,954	15,335	51,505	15,219	**(16,782)**
Packaging Materials	16,643	8,407	8,718	2,293	**1,302**
U.S. pension plan termination					**(9,152)**
Gain on sale of assets		1,690	4,544		
Interest income (expense), net	(9,357)	(1,578)	795	3,990	**1,233**
Gain (loss) on extinguishment of debt (5)	(10,510)		4,040	2,802	**170**
Income (loss) from continuing operations before taxes	69,730	23,854	69,602	24,304	**(23,229)**
Provision for income taxes from continuing operations (2)	4,705	1,468	8,068	5,448	**(3,610)**
Income (loss) from continuing operations	65,025	22,386	61,534	18,856	**(19,619)**
Income (loss) from discontinued operations, net of tax (2)(3)	(9,145)	(126,468)	(9,364)	18,874	**23,441**
Net income (loss)	$ 55,880	$ (104,082)	$ 52,170	$ 37,730	**$ 3,822**
Per Share Data:					
Income (loss) per share from continuing operations (4)					
Basic	$ 1.28	$ 0.43	$ 1.12	$ 0.34	**$ (0.37)**
Diluted	$ 1.03	$ 0.36	$ 0.91	$ 0.29	**$ (0.37)**
Discontinued operations, net of tax per share: (4)					
Basic	$ (0.18)	$ (2.45)	$ (0.17)	$ 0.33	**$ 0.44**
Diluted	$ (0.07)	$ (1.84)	$ (0.14)	$ 0.28	**$ 0.44**
Net income (loss) per share: (4)					
Basic	$ 1.10	$ (2.02)	$ 0.95	$ 0.67	**$ 0.07**

Diluted	$ 0.96	$ (1.48)	$ 0.78	$ 0.57	**$ 0.07**
Weighted average shares outstanding: (4)					
Basic	50,746	51,619	55,089	56,221	**53,449**
Diluted	68,582	67,662	68,881	68,274	**53,449**
Balance Sheet Data:					
Cash, cash equivalents, investments and restricted stock	$ 95,766	$ 95,369	$ 157,283	$ 169,910	**$ 186,081**
Working capital excluding discontinued operations	108,573	105,764	156,237	219,755	**165,543**
Total assets excluding discontinued operations	221,053	241,134	261,109	384,713	**336,270**
Long-term debt (5)	270,000	270,000	195,000	251,412	**175,000**
Shareholders equity (deficit)	67,020	(31,748)	79,306	83,255	**102,467**

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(1) During fiscal 2004, we recorded the following charges as operating expenses in continuing operations: severance charges of $1.9 million; China start-up costs of $0.1 million; inventory write-downs of $0.4 million; and a reversal of prior year resizing charges of $0.1 million. We also recorded a gain on the sale of assets of $0.9 million within fiscal 2004 operating expenses.

During fiscal 2005, we recorded the following charges as operating expenses in continuing operations: severance charges of $0.9 million; China start-up costs of $1.2 million; and inventory write-downs of $1.0 million. We also recorded a gain on the sale of assets of $1.7 million within fiscal 2005 operating expenses.

During fiscal 2006, we recorded the following charges in continuing operations: $3.5 million in cost of sales and $0.8 million in operating expenses for the cumulative adjustment to correct immaterial errors in the consolidated financial statements; $0.6 million in cost of sales and $4.1 million in operating expenses for SFAS 123R equity compensation expense; $8.4 million in operating expenses for incentive compensation and a gain on the sale of assets of $4.5 million in operating expenses.

During fiscal 2007, we recorded the following charges in continuing operations: $0.2 million in cost of sales and $5.3 million in operating expenses for SFAS 123R equity compensation expense; and $4.4 million in operating expense for incentive compensation.

During fiscal 2008, we recorded the following charges in continuing operations: $0.3 million in cost of sales and $4.4 million in operating expenses for SFAS 123R equity compensation expense; and $2.2 million in operating expense for incentive compensation.

(2) The following are the more significant factors which affect our provision for income taxes: implementation of our international restructuring plan in fiscal 2006, 2007 and 2008; volatility in our earnings each fiscal year and variation in earnings among various tax jurisdictions in which we operate; changes in assumptions regarding repatriation of earnings; and our provision for various tax exposure items.

(3) Reflects the operations of the Company s former flip chip business unit (sold February 2004), Test business (sold March 2006), and Wire business (sold subsequent to fiscal 2008).

(4) For fiscal 2004, 2005, 2006 and 2007 the exercise of dilutive stock options and expected vesting of performance-based restricted stock (fiscal 2007 only) and conversion of the convertible subordinated notes were assumed and $5.2 million, $1.7 million, $1.4 million and $1.3 million, respectively, of after-tax interest expense related to our convertible subordinated notes was added to the Company s net income to determine diluted earnings per share. Due to the Company s net loss from continuing operations for fiscal 2008, potentially dilutive shares were not assumed since the effect would have been anti-dilutive.

(5) In August 2001, the Company issued $125.0 million in principal amount of 5.25% Convertible Subordinated Notes due 2006, which the Company redeemed in their entirety in August 2004. In December 2003, the Company issued $205.0 million in principal amount of 0.5% Convertible Subordinated Notes due 2008, of which the Company repurchased $75.0 million, $53.6 million, and $4.0 million during fiscal 2006, 2007, and 2008, respectively. In June 2004, the Company issued $65.0 million in principal amount of 1.0% Convertible Subordinated Notes due 2010, and in June 2007, the Company issued $110.0 million in principal amount of 0.875% Convertible Subordinated Notes due 2012.

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Item 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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 (the Securities Act) and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act), and are subject to the safe harbor provisions created by statute. Such forward-looking statements include, but are not limited to, statements that relate to our future revenue, product development, demand forecasts, competitiveness, operating expenses, cash flows, profitability, gross margins, product prices, 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 continuing demand for wire and die bonder equipment and packaging materials.

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

Forward-looking statements are based on current expectations and involve risks and uncertainties. Our future results could differ significantly from those expressed or implied by our forward-looking statements. These risks and uncertainties include, without limitation, those described below and under the heading Risk Factors in this Annual Report on Form 10-K for the year ended September 27, 2008 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 prediction of actual results.

Introduction

Unless otherwise indicated, amounts provided throughout this Form 10-K relate to continuing operations only and accordingly do not include amounts attributable to our Wire business.

Kulicke and Soffa Industries, Inc. (K&S) designs, manufactures and markets capital equipment and packaging materials as well as services, maintains, repairs and upgrades equipment, all used to assemble semiconductor devices. Our customers primarily consist of Integrated Device Manufacturers (IDM) and subcontractor assembly facilities. According to VLSI Research, Inc., we are currently the world s leading supplier of semiconductor ball bonding assembly equipment.

Our goal is to be the technology leader and the lowest cost supplier in our main business segments which are:

equipment; and

packaging materials.

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, consolidating operations, moving certain manufacturing to Asia, moving a portion of 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 efficiencies while maintaining overall product quality.

Our fiscal year end for fiscal 2006, 2007 and 2008 was September 30, 2006, September 29, 2007, and September 27, 2008, respectively.

Divesture of the Wire Business

Subsequent to year end, on September 29, 2008, we completed the sale of our Wire business for $155.0 million (subject to working capital adjustment) to W.C. Heraeus GmbH (Heraeus), a precious metals and technology company based in Hanau, Germany. The working capital requirements of our Wire business had become significant in recent years, and we believe could no longer be justified. As a result of the sale of the Wire business, we improved our working capital position. Our Wire business had been previously reported within our Packaging Materials segment, but is now reported as discontinued operations. We expect the gain on the sale of our Wire business to be approximately $22.1 million to $25.1 million and will be recognized in the first quarter of fiscal 2009.

The sale of our Wire business provided us with the financial resources and technical focus necessary to pursue growth opportunities within our Equipment segment. In addition, we will continue to have a strategic technical alliance with Heraeus in the development of wire bonding solutions.

Acquisition of Wedge Bonding Business

Subsequent to year end on October 3, 2008, we completed the acquisition of substantially all of the assets of Orthodyne Electronics Corporation (Orthodyne), a privately held company based in Irvine, California. Orthodyne is the leading supplier of both wedge bonders and wedges (the consumable product used in wedge bonding) for the power management and hybrid module markets. In connection with the Orthodyne acquisition, we issued 7.1 million common shares with an estimated value of $46.2 million and paid $82.5 million in cash including working capital. A total of 15% of the purchase price was deposited into a third-party escrow account as partial security for Orthodyne s indemnification obligations under the asset purchase agreement. In addition, we agreed to pay up to $40.0 million in cash, if certain significant objectives related to gross profit are met by the Orthodyne business over the next three years.

We believe the Orthodyne acquisition will benefit us strategically by providing deeper penetration into the discrete side of the semiconductor market, and in the attractive power management and hybrid module markets. We expect wedge bonding will benefit from increased focus on energy efficient solutions in the years ahead, and that Orthodyne s market leading position in this area will allow us to address a larger Total Available Market (TAM). We now offer a broad suite of interconnect technologies for a variety of semiconductor packaging applications, and we believe the acquisition of Orthodyne will enhance our position as the leading supplier of interconnect solutions. We believe that on a combined basis, the sale of our Wire business and the purchase of Orthodyne will provide us with both the financial resources and technical focus necessary to pursue growth opportunities in other areas of our business.

Technology Leadership

In March 2008, we launched a new generation of semiconductor assembly equipment the Power Series which currently features the IConn$^{\mathbf{PS}}$ and ConnX$^{\mathbf{PS}}$ ball bonders. The Power Series is setting new standards for performance, productivity, upgradeability, and ease of use. Sales of the IConn$^{\mathbf{PS}}$ machines began during the quarter ended June 28, 2008, and sales of the ConnX$^{\mathbf{PS}}$ began in our first quarter of fiscal 2009. Initial customer response has been positive, and performance for these machines has met or exceeded our expectations. The improvement in productivity and reliability represented by the Power Series translates into lower cost of ownership for our customers, and we believe will give us competitive advantage going forward. In 2008, the IConn^{PS} machine won the Advanced Packaging magazine award for top new product in its class, the second time in three years a K&S product received this recognition.

We are currently in the later development stages of the next addition to the Power Series our next generation, die bonder machine, code named Discovery . Discovery will allow us to compete aggressively in the growing advanced packaging/stacked die market space. Alpha evaluations of Discovery have been underway with a select customer since July 2008, and the initial customer feedback has been very positive. We anticipate launching this machine in the second quarter of fiscal 2009.

Copper wire bonding continues to gain market interest as an alternative to gold wire bonding as customers seek ways to reduce the cost of the wire bonding process. We believe that for copper to become viable alternative to gold, a solution spanning all manufacturing materials and processes, not just those involved in wire bonding, will be needed. Accordingly, we launched a copper wire bonding initiative with the goal of working with our customers and partners to find an integrated solution from the front-end through the back-end of the integrated circuit (IC) manufacturing process. Currently, copper wire bonding represents a small but packaging technology, and we believe gold wire bonding will continue to be the dominant interconnect platform.

Through the purchase of Orthodyne, we now are the leaders in the design and manufacture of wedge bonders for the power semiconductor, automotive power module, and sensor markets. Wedge bonders use wire or ribbon bonds to attach high-current-capacity aluminum wire to power semiconductors in discrete power devices or in modules, such as inverters for hybrid cars. Wedge bonds also attach large-diameter wire to semiconductors when packaging or reliability constraints do not allow the use of ball bonds.

Business Environment

Global economic conditions affect demand for semiconductor capital equipment and packaging systems. Accordingly, our business and financial performance is impacted, both positively and negatively, by fluctuations in the macroeconomic environment. Conditions in the global economy deteriorated dramatically near the end of our fiscal year and in subsequent weeks. Current industry forecasts for calendar 2009 point to significant weakening in consumer and business electronics spending. We expect demand to remain weak and visibility to be poor through at least the second quarter of fiscal 2009.

Our equipment business is cyclical and highly dependent on semiconductor manufacturers expectation of capacity requirements for future IC demand, as well as their demand for new semiconductor manufacturing technologies. During the first quarter of fiscal 2009, our bookings slowed as customers respond to the weakening economic conditions.

Our Equipment segment sales have historically been highly volatile due to the semiconductor industry s cyclical need for new capability and capacity. Volatility is further influenced by the relative mix of IDM and subcontractor customers in any period, since subcontractors tend purchase larger volumes in less predictable patterns. Variance in the mix of sales to IDMs and subcontractors can also affect our average selling price due to differences in volume purchases and different machine configurations required by each type of customer.

Packaging Materials sales tend to be less volatile than equipment sales as these products represent consumable purchases for our customers and volumes follow the trend of total semiconductor interconnect unit production.

Balance Sheet Strength

We continually seek ways to maintain the strength of our balance sheet. Fiscal 2008 cash and investments of $186.1 million reflect a $16.2 million increase from fiscal 2007. Additionally, the impact of the Wire business divestiture and the Orthodyne acquisition, both of which closed after the year-end, was to add approximately $70.0 million in cash to our Consolidated Balance Sheet. Our stronger cash position allows us to manage volatile buying patterns of our customers, service our debt and continue to invest in research and development through downturns in the global economy and our industry.

Macroeconomic Factors: Foreign Currency

We are exposed to fluctuations in foreign currency exchange rates. Certain of our assets and liabilities are denominated in foreign currencies and are affected by changes in exchange rates for those currencies which impact our business. For fiscal year 2008, our foreign exchange transaction loss was $1.8 million compared to $0.1 million for fiscal 2007. The higher foreign exchange loss was due to the unfavorable exchange rates primarily driven by the Swiss Franc and Israeli Shekel. During fiscal 2008, we restructured our Swiss entity, which reduced our exposure to US Dollar/Swiss Franc fluctuations. To mitigate our market risk, we periodically adjust our subsidiaries holdings of foreign currency denominated working capital, and we may enter into foreign exchange forward contracts or other hedging instruments.

Products and Services

We offer a range of bonding equipment and packaging materials. The following table reflects the percentage of our net revenue by business segment for fiscal 2006, 2007 and 2008:

	Fiscal					
	2006		2007		2008	
(dollar amounts in thousands)	Net Revenues	% of Total Net Revenues	Net Revenues	% of Total Net Revenues	Net Revenues	% of Total Net Revenues
Equipment	$ 319,788	84.1%	$ 316,718	85.5%	$ 271,019	82.6%
Packaging Materials	60,508	15.9%	53,808	14.5%	57,031	17.4%
	$ 380,296	100.0%	$ 370,526	100.0%	$ 328,050	100.0%

See Note 11 to our Consolidated Financial Statements included in Item 8 of this report for financial results by business segment.

Equipment

We manufacture and market a line of ball bonders and die bonders which are sold to many of the same customers. Ball bonders are used to connect very fine wires, typically made of gold, aluminum or copper, between the bond pads of the semiconductor device, or die, and the leads on its package. Die bonders are used to attach a die to the package which will house the device. We believe our equipment offers competitive advantages by providing customers with high productivity/throughput and superior package quality/process control. In particular, our ball bonders are capable of performing very fine pitch bonding as well as creating the sophisticated wire loop shapes that are needed in the assembly of advanced semiconductor packages. Our principal products are:

Integrated Circuit Ball Bonders

Automatic IC ball bonders represent a significant portion of our semiconductor equipment business. As part of our competitive strategy, we seek to continually improve our models and periodically introduce new or improved models of our IC ball bonders. Each new or improved model is designed to increase both productivity and process capability compared to the predecessor model.

In March 2008, we introduced the Power Series IConn^{PS} ball bonder, which replaced our Maxum Ultra ball bonder and improves IC inter-connect performance with expanded technology that addresses advanced packaging requirements, copper wire bonding, and ultra fine pitch capability.

In July 2008, the new ConnX^{PS} ball bonder replaced our Maxum Elite ball bonder. The ConnX^{PS} is engineered to provide optimal manufacturing capabilities for the lower pin count IC market and the rapidly growing LED market.

IC Die Bonders

We utilize the same competitive strategy for our IC die bonders as we use for our ball bonder business, including developing new models which both improve the productivity of the die bonders and increase the size of the market for our products.

Wedge Bonders

Beginning in fiscal 2009, we offer through the Orthodyne acquisition, a broad portfolio of wedge bonding products.

The 3600plus and 7200plus wedge bonders are currently the leading choices for power interconnects in both the power hybrid and semiconductor markets. The products were launched by Orthodyne in late 2007 and early 2008, respectively, and were rapidly accepted by customers.

We will launch the latest 7600 series wedge bonder in the first half of calendar 2009. This product is targeted primarily at the market for small power packages and will extend our product portfolio to include reel-to-reel type applications.

The PowerRibbon® is a leading-edge interconnect for power packages, and is continuing to gain market acceptance. Further extension of our PowerRibbon® range towards both larger and smaller sizes is expected to continue throughout 2009. We believe this will help further establish PowerRibbon® as a premier interconnect technology for small power packages and high power applications, including automotive hybrid modules or other high current applications.

Packaging Materials

Our expendable tools include a wide variety of capillaries, wedges tools, clamp tooling, cutter blades, wire guides, and wafer saw blades. These tools are developed for a broad range of semiconductor packaging applications such as:

Capillaries and wedge tools- attach the wire to the semiconductor chip, guide the wire during loop formation, attach the wire to the package substrate and cut the wire allowing the bonding process to be repeated.

Clamp tooling - holds the lead frame securely in place during the bonding process and are typically custom-designed to meet individual customer needs.

Cutter blades- cut a large-diameter of wire in wedge bonding applications.

Wire guides precisely guide the wire during the loop formation.

Wafer saw blades - cut silicon wafers into individual semiconductor die.

In addition to the expandable tools discussed above, beginning in fiscal 2009 through the acquisition of Orthodyne, we will offer expendable wedge tools, clamp tooling, cutter blades and wire guides used for wedge and ribbon bonders. The wedge tools are used to attach the wire to the die or lead frame, while a precision wire guide is used to guide the wire during the loop formation. For wedge bonding with large-diameter of wire, a cutter blade is used to cut the wire after the bonding process is complete and allow the process to be repeated. Clamp tooling products are used to securely hold the lead frame in place during the bonding process, and are typically custom-designed to meet individual customer needs. Orthodyne s expendable products business is well positioned to benefit from future synergies with our existing Packaging Materials business.

Critical Accounting Policies

The preparation of consolidated financial statements requires us to make assumptions, estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses and disclosures of contingent assets and liabilities as of the date of the consolidated financial statements. On an on-going basis, we evaluate estimates, including but not limited to, those related to accounts receivable, reserves for excess and obsolete inventory, carrying value and lives of fixed assets, goodwill and intangible assets, valuation allowances for deferred tax assets and deferred tax liabilities, repatriation of unremitted foreign subsidiary earnings, pension benefit liabilities, equity-based compensation expense, resizing, warranties, and litigation. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable. As a result, we make judgments regarding the carrying values of our assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

We believe the following critical accounting policies, which have been reviewed with the Audit Committee, affect our more significant judgments and estimates used in the preparation of our consolidated financial statements.

Revenue Recognition

We recognize revenue in accordance with Staff Accounting Bulletin (SAB) No. 104, *Revenue Recognition* (SAB 104). We recognize revenue when persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, the price is fixed or determinable, the collectibility is reasonably assured, and we have satisfied equipment installation obligations and received customer acceptance, or are otherwise released from our installation or customer acceptance obligations. In the event terms of the sale provide for a lapsing customer acceptance period, we recognize revenue based upon the expiration of the lapsing acceptance period or customer acceptance, whichever occurs first. Our standard terms are Ex Works (Kulicke & Soffa factory), with title transferring to our customer at our loading dock or upon embarkation. We have a small percentage of sales with other terms, and revenue is recognized in accordance with the terms of the related customer purchase order. Revenue related to services is recognized upon performance of the services requested by a customer. 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. We do not provide price protection to our customers.

Our business is subject to contingencies related to customer orders as follows:

Right of Return: A large portion of our revenue comes from the sale of machines used in the semiconductor assembly process. Other product sales relate to consumable products, which are sold in high-volume quantities, and are generally maintained at low stock levels at our customer s facility. Customer returns have historically represented a very small percentage of customer sales on an annual basis. Our policy is to provide an allowance for customer returns based upon our historical experience and management assumptions.

Warranties: Our equipment is generally shipped with a one-year warranty against manufacturer s defects. We recognize a liability for estimated warranty expense when revenue for the related product is recognized. The estimated liability for warranty expense is based upon historical experience and our estimates of future expenses.

Conditions of Acceptance: Sales of our consumable products generally do not have customer acceptance terms. In certain cases, sales of our equipment have customer acceptance clauses which may require the equipment to perform in accordance with customer specifications or when installed at the customer s facility. In such cases, if the terms of acceptance are satisfied at our facility prior to shipment, the revenue for the equipment will be recognized upon shipment. If the terms of acceptance are satisfied at our customers facilities, the revenue for the equipment will be not be recognized until acceptance, which typically consists of installation and testing, is received from the customer.

Allowance for Doubtful Accounts

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

Inventories

Inventories are stated at the lower of standard cost (which approximates actual cost on a first-in first-out basis) or market value. We generally provide reserves for obsolete inventory and for inventory considered to be in excess of demand. In addition, we generally record 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. We communicate forecasts of our future demand to our suppliers and adjust commitments to those suppliers accordingly. If required, we reserve for the difference between the carrying value of our inventory and the lower of cost or market value, based upon assumptions about future demand, market conditions and the next cyclical market upturn. If actual market conditions are less favorable than our projections, additional inventory reserves may be required.

Valuation of Long-lived Assets

Our long-lived assets are primarily property, plant and equipment and goodwill. In accordance with the provisions of Statements of Financial Accounting Standards (SFAS) No. 142, *Goodwill and Other Intangible Assets* (SFAS 142), our goodwill is not amortized. SFAS 142 also requires that, at least annually, we perform an impairment test to support the carrying value of goodwill. In addition, whenever events occur that may impact the carrying value of goodwill an impairment test will be performed. The fair value of our goodwill is based upon our estimates of future cash flows and other factors. We manage and value our intangible technology assets in the aggregate, as one asset group, not by individual technology.

In accordance with SFAS No. 144, *Accounting for Impairment or Disposal of Long-Lived Assets* (SFAS 144), our 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. SFAS 144 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.

Income Taxes

We record a valuation allowance to reduce our deferred tax assets to the amount we expect is more likely than not to be realized. While we have considered future taxable income and our ongoing tax planning strategies in assessing the need for the valuation allowance, if we were to determine that we would be able to realize our deferred tax assets in the future in excess of our net recorded amount, an adjustment to the deferred tax asset would increase income in the period such determination was made. Likewise, should we determine we would not be able to realize all or part of our net deferred tax assets in the future, an adjustment to the deferred tax asset would decrease income in the period such determination was made. In fiscal 2002 and 2003, we established a valuation allowance against our deferred tax assets generated from our U.S. net operating losses. In fiscal 2004 through 2008, we reversed the portion of the valuation allowance that was equal to the U.S. federal income tax expense on our U.S. income for that fiscal year or related to our plans to repatriate certain unremitted foreign earnings. Due to the restructuring of our international operations, projections of future earnings and the significant historic volatility of our Equipment segment, which will be the primary income source for the U.S. in the future, we do not believe it is more likely than not the remaining deferred tax assets will be realized.

Effective September 30, 2007, we 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 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, *Accounting for Income Taxes*. 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.

Equity-based Compensation

We account 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 in net income. The fair value of our 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 cost requires that we 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 we have 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.

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RECENT ACCOUNTING PRONOUNCEMENTS

See Note 1 to the consolidated financial statements in Item 8 for a description of certain recent accounting pronouncements including the expected dates of adoption and effects on our consolidated results of operations and financial condition.

Results of Operations for fiscal 2007 and 2008

The following table reflects bookings and backlog as of September 29, 2007 and September 27, 2008:

	As of	
(in thousands)	**September 29, 2007**	**September 27, 2008**
Bookings	$ 412,199	$ 291,994
Backlog	$ 85,563	$ 49,508

Bookings and Backlog

A booking is recorded when a customer order is reviewed and it is determined that all specifications can be met, production (or service) can be scheduled, a delivery date can be set, and the customer meets our credit requirements. Our backlog consists of customer orders that are scheduled for shipment within the next 12 months. A majority of our orders are subject to cancellation or deferral by the customer with limited or no penalties. Also, customer demand for our products can vary dramatically without prior notice. Because of the volatility of customer demand, possibility of customer changes in delivery schedules or cancellations and potential delays in product shipments, our bookings and backlog as of any particular date may not be indicative of revenues for any succeeding period.

Net Revenue

Our customers are primarily located or have operations in the Asia/Pacific region. Approximately 97% and 96% of our net revenue for fiscal 2007 and 2008, respectively, was from shipments to customer locations outside of the United States, and we expect sales outside of the United States to continue to represent a substantial majority of our future revenues.

The following table reflects net revenue by business segment for fiscal 2007 and 2008:

		Fiscal		
(dollar amounts in thousands)	**2007**	**2008**	**$ Change**	**% Change**
Equipment	$ 316,718	$ 271,019	$ (45,699)	-14.4%
Packaging Materials	53,808	57,031	3,223	6.0%
Total	$ 370,526	$ 328,050	$ (42,476)	-11.5%

Equipment

The following table reflects the components of Equipment net revenue change from fiscal 2007 to 2008:

		Fiscal 2007 vs. 2008	
(in thousands)	**Price**	**Volume**	**Change**
Equipment	$ (359)	$ (45,340)	$ (45,699)

The decrease in net revenue from fiscal year 2007 to fiscal year 2008 was mainly due to a 15.8% decrease in volume for IC ball bonders and 47.1% decrease in volume for IC die bonders. The fiscal 2008 decrease in volume is mainly due to a decline in global demand for assembly equipment due to the global economic crisis. Fiscal 2007 was stronger due to increased demand for capacity for the memory market. Additionally, the capacity utilization rate of our customers was lower in the first half of fiscal 2008 then it was for any quarter in fiscal 2007. The small decrease in price is due to our IC ball bonders selling price falling by 0.9% as a result of the mix of sales to our subcontractors and

IDMs in fiscal 2008 compared to fiscal 2007. Our selling prices to subcontractor customers are lower due to larger volume purchases. The lower IC ball bonder prices were partially offset by the higher price for our latest generation IC ball bonder machine introduced in March 2008.

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Packaging Materials

The following table reflects the components of Packaging Materials net revenue variance from fiscal 2007 to 2008:

	Fiscal 2007 vs. 2008		
(in thousands)	**Price**	**Volume**	**Change**
Packaging Materials	$ (3,003)	$ 6,226	$ 3,223

The net increase in Packaging Material revenue from fiscal 2007 to 2008 was primarily due to volume increases in both our Tools and Blades businesses. Tools volumes increased 11.5%, while Blades volumes increased 11.7%. The increase in both Tools and Blades volume was mainly due to an 11.9% increase in IC unit demand. From fiscal 2007 to fiscal 2008, Tools average selling prices decreased 6.3% due to normal price erosion as well as change in customer mix. This was slightly offset by a 3.4% increase in Blades average selling prices due to a change in product mix.

Gross Profit

The following table reflects gross profit by business segment for fiscal 2007 and 2008:

	Fiscal			
(dollar amounts in thousands)	**2007**	**2008**	**$ Change**	**% Change**
Equipment	$ 128,663	$ 105,520	$ (23,143)	-18.0%
Packaging Materials	26,773	28,273	1,500	5.6%
Total	$ 155,436	$ 133,793	$ (21,643)	-13.9%

The following table reflects gross profit as a percentage of net revenue by business segment for fiscal 2007 and 2008:

	Fiscal		
	2007	**2008**	**Basis Point Change**
Equipment	40.6%	38.9%	(169)
Packaging Materials	49.8%	49.6%	(18)
Total	42.0%	40.8%	(117)

Equipment

The following table reflects the components of Equipment gross profit variance from fiscal 2007 to 2008:

	Fiscal 2007 vs. 2008			
(in thousands)	**Price**	**Cost**	**Volume**	**Change**
Equipment	$ (359)	$ (3,163)	$ (19,621)	$ (23,143)

The decrease in gross profit from fiscal 2007 to fiscal 2008 was primarily due to decreased industry-wide demand for back-end semiconductor equipment as IC ball bonder volumes were 15.8% lower during the current fiscal year. The fiscal 2008 decrease in volume is mainly due to a decline in global demand for assembly equipment due to the global economic crisis. Fiscal 2007 was stronger due to increased demand for capacity for the memory market. Also, the capacity utilization rate of our customers was lower in the first half of fiscal 2008 then it was for any quarter in fiscal 2007. The increase in cost is primarily due to absorption costs from lower volumes in our IC ball bonders and IC die bonders along with inventory excess and obsolete expense related to our specialty ball bonders.

Packaging Materials

The following table reflects the components of Packaging Materials gross profit change from fiscal 2007 to 2008:

	Fiscal 2007 vs. 2008			
(in thousands)	**Price**	**Cost**	**Volume**	**Change**
Packaging Materials	$ (3,003)	$ 1,404	$ 3,099	$ 1,500

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The net increase in Packaging Material gross profit from fiscal 2007 to 2008 was primarily due to volume increases in both our Tools and Blades businesses. Tools volumes increased 11.5%, while Blades volumes increased 11.7%. The increase in both Tools and Blades volume was mainly due to an 11.9% increase in IC unit demand. From fiscal 2007 to fiscal 2008, Tools average selling prices decreased 6.3% due to normal price erosion as well as change in customer mix. This was slightly offset by a 3.4% increase in Blades average selling prices due to a change in product mix. The decrease in Tools costs were due to a higher mix of lower cost products. The decrease in Blades costs was due to in-house production of semi-finished products as well as manufacturing productivity improvements.

Operating Expenses

The following table reflects operating expenses for fiscal 2007 and 2008:

	Fiscal			
(dollar amounts in thousands)	**2007**	**2008**	**$ Change**	**% Change**
Selling, general and administrative	$ 88,839	$ 89,356	$ 517	0.6%
Research and development	49,085	59,917	10,832	22.1%
U.S. pension plan termination		9,152	9,152	0.0%
Total	$ 137,924	$ 158,425	$ 20,501	14.9%

The following table reflects operating expenses as a percentage of net revenue for fiscal 2007 and 2008:

	Fiscal		
	2007	**2008**	**Change**
Selling, general and administrative	24.0%	27.2%	3.3%
Research and development	13.2%	18.3%	5.0%
U.S. pension plan termination	0.0%	2.8%	2.8%
Total	37.2%	48.3%	11.1%

Selling, general and administrative

The increase in selling, general and administrative (SG&A) expense of $0.5 million in fiscal 2008 compared to fiscal 2007 was due to an increase in foreign currency exchange expense of $1.6 million, additional marketing expense of $1.1 million and higher equipment selling, service and support cost of $0.7 million. These higher SG&A expenses were offset by lower incentive compensation costs of $2.2 million and lower die bonder integration cost of $0.8 million.

Research and development

Research and development (R&D) expense for fiscal 2008 increased $10.8 million compared to fiscal 2007. The increase was primarily due to $8.8 million of additional spending for our new die bonder platform and $1.8 million of costs to complete our recently released Iconn and ConnX ball bonder products.

U.S. Pension Plan Termination

For fiscal 2008, operating expenses included a one-time, non-cash expense of $9.2 million related to the termination of the U.S. pension plan.

Income (loss) from Continuing Operations

The following table reflects income (loss) from continuing operations by business segment for fiscal 2007 and 2008:

	Fiscal			
(dollar amounts in thousands)	**2007**	**2008**	**$ Change**	**% Change**
Equipment	$ 15,219	$ (25,934)	$ (41,153)	-270.4%
Packaging materials	2,293	1,302	(991)	-43.2%
Total	$ 17,512	$ (24,632)	$ (42,144)	-240.7%

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Equipment

The main contributors to the fiscal 2008 increase in the loss from continuing operations for our Equipment segment were: $23.1 million lower gross profit due to decreased industry-wide demand for back-end semiconductor equipment as IC ball bonder volumes were 15.8% lower during the current fiscal year; a one-time, non-cash expense of $9.2 million related to the termination of the U.S. pension plan during fiscal 2008; higher fiscal 2008 R&D costs of $10.8 million primarily due to the development of our next generation IC die bonders and IC ball bonders; and, higher marketing, selling, service and support costs of $2.0 million, and; $1.9 million of lower incentive compensation costs.

Packaging Materials

Lower income from continuing operations for our Packaging Materials segment of $1.0 million during fiscal 2008 was primarily due to increased gross margin of $1.5 million due to volume increases in both our Tools and Blades businesses offset by higher operating expenses primarily due to an additional $2.2 million of foreign currency exchange losses.

Interest Income and Expense

The following table reflects interest income and interest expense for fiscal 2007 and 2008:

	Fiscal			
(dollar amounts in thousands)	**2007**	**2008**	**$ Change**	**% Change**
Interest income	$ 6,866	$ 4,732	$ (2,134)	-31.1%
Interest expense	(2,876)	(3,499)	(623)	21.7%

Interest income during fiscal 2008 was lower than fiscal 2007 due to lower invested cash balances. Fiscal 2008 increase in interest expense of $0.6 million from fiscal 2007 was primarily due to an increase in our Convertible Subordinated Notes outstanding.

Provision for Income Taxes

Our provision for income taxes from continuing operations for fiscal 2008 reflects an income tax benefit of $3.6 million which primarily consists of $2.2 million of income tax expense for additional foreign income tax exposures, $0.3 million for potential repatriation of foreign earnings, and $0.2 for foreign withholding taxes. These tax expense times were offset by tax benefits of $3.4 million for the termination of the pension plan and income tax benefits on losses in foreign jurisdictions of $2.9 million. Our tax expense in fiscal 2007 reflects income tax expense on foreign and domestic income tax exposures, foreign withholding taxes, repatriation of foreign earnings, federal alternative minimum taxes and state taxes.

Our effective tax rate of 15.5% for fiscal 2008 is lower than the U.S. statutory rate of 35% primarily due to losses in foreign jurisdictions with tax holidays, permanent items and state taxes offset in part by a release in the valuation allowance related to current year earnings. The reversal of the valuation allowance is limited to the deferred tax assets utilized in the current fiscal year, as we do not believe sufficient positive evidence exists with respect to our ability to generate sufficient future earnings to utilize these deferred tax assets. We continue to maintain a valuation allowance against our remaining deferred tax assets as we do not believe it is more likely than not that the remaining deferred tax assets will be realized due to the restructuring of international operations, projections of future earnings and the significant historic volatility of our Equipment segment, which will be the primary source for the U.S. in the future.

Our future effective tax rate would be affected if earnings were lower than anticipated in countries where we have lower statutory rates and higher than anticipated in countries where we have higher statutory rates by changes in the valuation of our deferred tax assets and liabilities, or by changes in tax laws, regulations, accounting principles, or interpretations thereof. We regularly assess the effects resulting from these factors to determine the adequacy of our provision for income taxes.

Income from Discontinued Operations, net of tax

Subsequent to year end, on September 29, 2008, we completed the sale of certain assets associated with our Wire business. As a result, the Wire business is reflected as a discontinued operation for all periods, including fiscal 2007 and 2008 (see the description of the sale of this business in the introduction to this Management s Discussion Analysis of Financial Condition and Results of Operations).

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The following table reflects operating results of the discontinued operation for fiscal 2007 and 2008:

	Fiscal	
(in thousands)	**2007**	**2008**
Net revenue : Wire	$ 329,878	$ 423,971
Income from discontinued operations before tax	$ 18,934	$ 23,690
Income tax expense	(60)	(249)
Income from discontinued operations, net of tax	$ 18,874	$ 23,441

The increase in income from discontinued operations, net of tax was primarily due to higher gold prices for our former Wire business.

Results of Operations for fiscal 2006 and 2007

The following table reflects bookings and backlog as of September 30, 2006 and September 29, 2007:

	As of	
(in thousands)	**September 30, 2006**	**September 29, 2007**
Bookings	$ 345,069	$ 412,199
Backlog	$ 43,892	$ 85,563

Bookings and Backlog

A booking is recorded when a customer order is reviewed and it is determined that all specifications can be met, production (or service) can be scheduled, a delivery date can be set, and the customer meets our credit requirements. Our backlog consists of customer orders that are scheduled for shipment within the next 12 months. A majority of our orders are subject to cancellation or deferral by the customer with limited or no penalties. Also, customer demand for our products can vary dramatically without prior notice. Because of the volatility of customer demand, possibility of customer changes in delivery schedules or cancellations and potential delays in product shipments, our bookings and backlog as of any particular date may not be indicative of revenues for any succeeding period.

Net Revenue

The following table reflects net revenues by business segment for fiscal 2006 and 2007:

	Fiscal			
(dollar amounts in thousands)	**2006**	**2007**	**$ Change**	**% Change**
Equipment	$ 319,788	$ 316,718	$ (3,070)	-1.0%
Packaging Materials	60,508	53,808	(6,700)	-11.1%
Total	$ 380,296	$ 370,526	$ (9,770)	-2.6%

Our customers are primarily located in or have operations in the Asia/Pacific region. Approximately 97% of our fiscal 2006 and 2007 net revenues were to customer locations outside of the United States, and we expect sales outside of the United States to continue to represent a substantial majority of our future revenues.

Equipment

The following table reflects the components of Equipment net revenue change from fiscal 2006 to 2007:

	Fiscal 2006 vs. 2007		
(in thousands)	**Price**	**Volume**	**Change**
Equipment	$ (22,475)	$ 19,405	$ (3,070)

The decrease in net revenue was primarily due to our IC ball bonders selling price falling by 8.5%. This decrease is due to customer mix as we sold a higher proportion of machines to our customers who are subcontractors and distributors in fiscal 2007 as compared to fiscal 2006. The increase in volume of $19.4 million was due to our newly acquired IC die bonder business partially offset by lower volume from our specialty ball bonders.

Packaging Materials

The following table reflects the components of Packaging Materials net revenue variance from fiscal 2006 to 2007:

	Fiscal 2006 vs. 2007		
(in thousands)	**Price**	**Volume**	**Change**
Packaging Materials	$ (919)	$ (5,781)	$ (6,700)

For fiscal 2007, the decrease in packaging material revenue is primarily due to a 5.0% decrease in Capillary unit sales and the 3.6% decrease in Capillary average selling prices. The decrease in volume is due to market acceptance of more durable consumables while the decrease in average selling price can be attributed to the overall industry dynamic of continual price reductions. In our remaining packaging materials businesses there was a higher market demand for more durable consumables and share loss in smaller packaging materials businesses.

Gross Profit

The following table reflects gross profit by business segment for fiscal 2006 and 2007:

	Fiscal			
(dollar amounts in thousands)	**2006**	**2007**	**$ Change**	**% Change**
Equipment	$ 141,189	$ 128,663	$ (12,526)	-8.9%
Packaging Materials	32,034	26,773	(5,261)	-16.4%
Total	$ 173,223	$ 155,436	$ (17,787)	-10.3%

The following table reflects gross profit as a percentage of net revenue by business segment for fiscal 2006 and 2007:

	Fiscal		
	2006	**2007**	**Basis Point Change**
Equipment	44.2%	40.6%	(353)
Packaging Materials	52.9%	49.8%	(319)
Total	45.5%	42.0%	(360)

Equipment

The following table reflects the components of Equipment gross profit variance from fiscal 2006 to 2007:

	Fiscal 2006 vs. 2007			
(in thousands)	**Price**	**Cost**	**Volume**	**Change**
Equipment	$ (22,475)	$ 6,918	$ 3,031	$ (12,526)

The net decrease in Equipment gross profit was primarily due to an 8.5% decrease in the selling price of IC ball bonders. In addition, we achieved a $6.8 million decrease in cost due to our continuous effort to reduce IC ball bonder expenses, and a favorable $3.0 million net volume increase due to our newly acquired IC die bonder business partially offset by lower volume from our specialty die bonders. Fiscal 2006 gross profit included a one time $3.5 million favorable correction of errors.

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Packaging Materials

The following table reflects the components of Packaging Materials gross profit change from fiscal 2006 to 2007:

	Fiscal 2006 vs. 2007			
(in thousands)	**Price**	**Cost**	**Volume**	**Change**
Packaging Materials	$ (919)	$ (1,723)	$ (2,619)	$ (5,261)

The net decrease in Packaging Material gross profit was primarily due to a 5.0% decrease in capillary unit sales and 3.6% decrease in capillary average selling prices. The decrease in volume is due to market acceptance of more durable consumables while the decrease in average selling price can be attributed to the overall industry dynamic of continual price reductions.

Operating Expenses

The following table reflects operating expenses for fiscal 2006 and 2007:

	Fiscal			
(dollar amounts in thousands)	**2006**	**2007**	**$ Change**	**% Change**
Selling, general and administrative	$ 76,709	$ 88,839	$ 12,130	15.8%
Research and development	36,291	49,085	12,794	35.3%
Gain on sale of assets	(4,544)		4,544	-100.0%
Total	$ 108,456	$ 137,924	$ 29,468	27.2%

The following table reflects operating expenses as a percentage of net revenue for fiscal 2006 and 2007:

	Fiscal		
	2006	**2007**	**Change**
Selling, general and administrative	20.2%	24.0%	3.8%
Research and development	9.5%	13.2%	3.7%
Gain on sale of assets	-1.2%	0.0%	1.2%
Total	28.5%	37.2%	8.7%

Selling, general and administrative

The increase in SG&A expenses of $12.1 million in fiscal 2007 compared to the previous year was primarily due to the addition of the die bonder business.

Research and development

The increase in R&D expenses of $12.8 million in fiscal 2007 compared to previous year was primarily due to the addition of the die bonder business.

Gain on sale of assets

For fiscal 2006, the $4.5 million net gain on sale of assets represents the gain recognized on the sale of the land and building of our former corporate headquarters location in Willow Grove, Pennsylvania.

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Income from Operations

The following table reflects income from continuing operations by business segment for fiscal 2006 and 2007:

	Fiscal			
(dollar amounts in thousands)	**2006**	**2007**	**$ Change**	**% Change**
Equipment	$ 51,505	$ 15,219	$ (36,286)	-70.5%
Packaging Materials	8,718	2,293	(6,425)	-73.7%
Gain on sale of assets	4,544		(4,544)	-100.0%
Total	$ 64,767	$ 17,512	$ (47,255)	-73.0%

Equipment

For fiscal 2007, income from operations for our equipment business segment decreased $36.3 million due to the continued investment in the die bonder business as well as this segment absorbing increased allocation of our SG&A expenses that were previously allocated to divested businesses.

Packaging Materials

For fiscal 2007, income from operations for our packaging materials business segment decreased $6.4 million due to our increased investment in engineering of each of the business units as well as this segment absorbing increased allocation of our SG&A expenses that were previously allocated to divested businesses.

Interest Income and Expense

The following table reflects interest income and interest expense for fiscal 2006 and 2007:

	Fiscal			
(dollar amounts in thousands)	**2006**	**2007**	**$ Change**	**% Change**
Interest income	$ 3,921	$ 6,866	$ 2,945	75.1%
Interest expense	(3,126)	(2,876)	250	-8.0%

Interest income during fiscal 2007 was higher than fiscal 2006 due to higher rates of return on invested cash balances and higher invested cash balances. Interest expense in both fiscal 2006 and 2007 primarily reflects interest on our Convertible Subordinated Notes. The higher interest expense in fiscal 2006 reflected interest expense on the sale-leaseback of our former corporate headquarters.

Gain on Early Extinguishment of Debt

In fiscal 2006, we exchanged a total of 3.6 million shares of our common stock and $26.4 million of cash for $75.0 million (face value) of our 0.5% Convertible Subordinated Notes outstanding, and in accordance with Accounting Principles Board (APB) No. 26, *Early Extinguishment of Debt* (APB 26), we recorded a gain on early extinguishment of debt of $4.0 million, net of deferred amortization costs written off of $1.3 million. The exchanges included a number of shares that was less than the original number of shares issuable under the conversion terms. In fiscal 2007, we purchased in the open market $53.6 million (face value) of our 0.5% Convertible Subordinated Notes outstanding for net cash of $50.4 million. We recorded a gain of extinguishment of debt of $2.8 million, net of deferred amortization costs written off of $0.4 million.

Provision for Income Taxes

Our provision for income taxes from continuing operations for fiscal 2007 reflects income tax expense of $5.5 million, which primarily consists of $1.3 million for federal alternative minimum taxes, $2.2 million for state income taxes, $3.5 million of income tax expense for additional foreign and domestic income tax exposures, $0.1 for foreign withholding taxes and is offset by $1.6 million for potential repatriation of foreign earnings. Our tax expense in fiscal 2006 reflects income tax expense on income in foreign jurisdictions, foreign income tax exposures, foreign withholding taxes, potential repatriation of foreign earnings, federal alternative minimum taxes and state taxes.

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Our effective tax rate of 22.4% for fiscal 2007 is lower than the U.S. statutory rate of 35% primarily due to the reversal of the valuation allowance associated with our domestic deferred tax assets due to current year operating results and benefits from foreign approved enterprise zones. The reversal of the valuation allowance is limited to the deferred tax assets utilized in the current fiscal year, as we do not believe sufficient positive evidence exists with respect to our ability to generate sufficient future earnings to utilize these deferred tax assets. We continue to maintain a valuation allowance against our remaining deferred tax assets as we do not believe it is more likely than not that the remaining deferred tax assets will be realized due to the restructuring of international operations in fiscal 2006 and fiscal 2007 and the significant historic volatility of our Equipment segment, which will be the primary source for the U.S. in the future.

Our future effective tax rate would be affected if earnings were lower than anticipated in countries where we have lower statutory rates and higher than anticipated in countries where we have higher statutory rates by changes in the valuation of our deferred tax assets and liabilities, or by changes in tax laws, regulations, accounting principles, or interpretations thereof. We regularly assess the effects resulting from these factors to determine the adequacy of our provision for income taxes.

Income (Loss) from Discontinued Operations, net of tax

Discontinued operations for fiscal 2006 and 2007 consisted of our former Wire and Test businesses. The following table reflects operating results of the discontinued operations for fiscal 2006 and 2007:

	Fiscal	
(in thousands)	**2006**	**2007**
Net revenue : Wire	$ 316,015	$ 329,878
Net revenue : Test	42,698	
Net revenue from discontinued operations	$ 358,713	$ 329,878
Income (loss) from discontinued operations before tax	$ (12,706)	$ 18,934
Income tax benefit (expense)	3,342	(60)
Income (loss) from discontinued operations, net of tax	$ (9,364)	$ 18,874

The Test business was sold in fiscal 2006, but had net revenue of $42.7 million through the date of sale. The loss from the Test business operations for fiscal 2006 was $24.9 million, including a loss on disposal of $0.8 million, net of a benefit from income taxes of $1.4 million. Included in the loss from discontinued operations are operating losses of $10.6 million, and accrued severance and facilities costs of approximately $6.4 million and $6.1 million, respectively. The facilities costs of $6.1 million are net of estimated sublease income from the affected facilities. These estimates of sublease income are subject to change, and such changes could result in an increase or decrease to the estimated facilities charges previously recorded. These payments are expected to be paid out through September 2012.

The following table reflects accrued expenses recorded, and included in continuing operations, in fiscal 2007 for obligations associated with the discontinuation of the Test business:

(in thousands)	**Severance and related benefits**	**Facilities**	**Total**
As of September 30, 2006	$ 1,538	$ 5,454	$ 6,992
Change in estimate included in continuing operations	43	1,570	1,613
Payment of obligations	(1,581)	(1,763)	(3,344)
As of September 29, 2007	$	$ 5,261	$ 5,261

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LIQUIDITY AND CAPITAL RESOURCES

Our working capital needs are generally funded through cash flows from operations and borrowings under our credit arrangements. During the year ended September 27, 2008, we generated approximately $26.9 million of cash flows from operating activities, used approximately $29.6 million in investing activities and used approximately $3.3 million in financing activities.

The following table reflects cash, cash equivalents, restricted cash, and short-term investments as of September 29, 2007 and September 27, 2008:

	As of		
(dollar amounts in thousands)	**September 29, 2007**	**September 27, 2008**	**$ Change**
Cash and cash equivalents	$ 150,571	$ 144,932	$ (5,639)
Restricted cash (1)		35,000	35,000
Short-term investments	19,339	6,149	(13,190)
Total cash and investments	$ 169,910	$ 186,081	$ 16,171
Percentage of total assets	44%	55%	

(1) Our gold financing arrangement for our former Wire business required restricted cash of $35.0 million which is reflected on the Consolidated Balance Sheet. Subsequent to year end in connection with the sale of the Wire business, the restriction on the cash balance was released.

The following table reflects summary Consolidated Statement of Cash Flow information for fiscal 2007 and 2008:

	Fiscal	
(in thousands)	**2007**	**2008**
Cash provided by (used in) continuing operations:		