KULICKE & SOFFA INDUSTRIES INC
Form 424B3
February 17, 2005

Prospectus Supplement
Dated February 17, 2005
(To Prospectus dated December 21, 2004)

Filed Pursuant to Rule 424(b)(3) and Rule 424(c)
Commission File No. 333-111478

$205,000,000

0.5% Convertible Subordinated Notes due 2008 and

the Common Stock issuable upon conversion of the Notes

This prospectus supplement relates to the public offering of up to $205,000,000 in principal amount of our 0.5% Convertible Subordinated Notes due 2008 and the Common Stock issuable upon conversion of the Notes by the selling securityholders identified in the prospectus, and contains information with respect to our recently completed first quarter of our 2005 fiscal year.

This prospectus supplement should be read in conjunction with, and may not be delivered or utilized without, the prospectus dated December 21, 2004, including any amendments or supplements thereto. This prospectus supplement is qualified by reference to the prospectus except to the extent that the information in this prospectus supplement updates and supersedes the information contained in the prospectus dated December 21, 2004.

Investing in our securities involves risks. See Risk Factors beginning on page 4 of the prospectus.

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

This prospectus supplement is dated February 17, 2005

On February 9, 2005, we filed a Quarterly Report on Form 10-Q (the Form 10-Q) for the period ended December 31, 2004 with the Securities and Exchange Commission. Below are the financial statements, management s discussion and analysis of financial condition and results of operations, and certain other disclosures from our Form 10-Q.

KULICKE AND SOFFA INDUSTRIES, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands)

	September 30, 2004	(Unaudited) December 31, 2004
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 60,333	$ 82,431
Restricted cash	3,257	3,497
Short-term investments	32,176	24,989
Accounts and notes receivable (less allowance for doubtful accounts: 9/30/04 - $3,646; 12/31/04 - $3,346)	110,718	91,454
Inventories, net	58,017	57,856
Assets held for sale	6,072	
Prepaid expenses and other current assets	10,310	14,137
Deferred income taxes	12,417	12,250
TOTAL CURRENT ASSETS	293,300	286,614
Property, plant and equipment, net	51,434	44,674
Intangible assets, (net of accumulated amortization: 9/30/04 - $35,209; 12/31/04 - $37,465)	54,045	52,789
Goodwill	81,440	81,440
Other assets	7,463	7,222
TOTAL ASSETS	$ 487,682	$ 472,739
LIABILITIES AND SHAREHOLDERS EQUITY		
CURRENT LIABILITIES		
Current portion of long term debt	$ 202	$ 42
Accounts payable	50,002	43,400
Accrued expenses	37,660	34,944
Income taxes payable	11,986	13,051
TOTAL CURRENT LIABILITIES	99,850	91,437
Long term debt	275,725	270,602
Other liabilities	8,112	9,333
Deferred taxes	36,975	37,567
TOTAL LIABILITIES	420,662	408,939
Commitments and contingencies		
SHAREHOLDERS EQUITY		
Common stock, without par value	213,847	214,960
Retained deficit	(139,912)	(147,103)
Accumulated other comprehensive loss	(6,915)	(4,057)
TOTAL SHAREHOLDERS EQUITY	67,020	63,800

TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	$ 487,682	$ 472,739

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

KULICKE AND SOFFA INDUSTRIES, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share data)

(unaudited)

	Three months ended December 31,	
	2003	**2004**
Net revenue	$ 153,869	$ 116,321
Cost of sales	106,507	89,943
Gross profit	47,362	26,378
Selling, general and administrative	24,716	22,073
Research and development, net	8,176	8,878
Gain on sale of assets		(1,875)
Amortization of intangible assets	2,315	2,194
Operating expense	35,207	31,270
Income (loss) from operations	12,155	(4,892)
Interest income	204	449
Interest expense	(4,429)	(846)
Charge on early extinguishment of debt	(6,152)	
Income (loss) from continuing operations before income tax	1,778	(5,289)
Provision for income taxes	1,350	1,902
Income (loss) from continuing operations	428	(7,191)
Income from discontinued FCT operations	319	
Net income (loss)	$ 747	$ (7,191)
Income (loss) per share from continuing operations:		
Basic	$ 0.01	$ (0.14)
Diluted	$ 0.01	$ (0.14)
Loss per share from discontinued operations:		
Basic	$ 0.00	$ 0.00
Diluted	$ 0.00	$ 0.00
Net income (loss) per share:		

Basic	$ 0.01	$ (0.14)
Diluted	$ 0.01	$ (0.14)
Weighted average shares outstanding:		
Basic	50,392	51,237
Diluted	56,932	51,237

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

KULICKE AND SOFFA INDUSTRIES, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(unaudited)

	Three months ended December 31, 2003	Three months ended December 31, 2004
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	$ 747	$ (7,191)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	8,351	7,012
Gain on sale of assets		(1,875)
Charge on early extinguishment of debt	6,152	
Changes in components of working capital:		
Accounts receivable	(25,648)	20,729
Inventory	(2,401)	127
Prepaid expenses and other assets	(544)	(4,203)
Accounts payable and accrued expenses	19,668	(12,614)
Taxes payable	684	1,108
Other, net	1,723	1,872
Net cash provided by operating activities	8,732	4,965
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sales of investments classified as available for sale	4,200	11,710
Purchase of investments classified as available for sale	(7,624)	(4,514)
Purchases of property, plant and equipment	(2,928)	(2,978)
Proceeds from sale of assets		11,831
Net cash provided by (used in) investing activities	(6,352)	16,049
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of common stock	3,001	438
Changes in restricted cash	(421)	(240)
Net proceeds from issuance of 0.5% convertible subordinated notes	199,736	
Purchase of 4.75% convertible subordinate notes	(178,563)	
Payments on borrowings, including capitalized leases	(61)	(9)
Net cash provided by financing activities	23,692	189
Effect of exchange rate changes on cash and cash equivalents		895
Changes in cash and cash equivalents	26,072	22,098
Cash and cash equivalents at beginning of period	65,725	60,333
Cash and cash equivalents at end of period	$ 91,797	$ 82,431
CASH PAID DURING THE PERIOD FOR:		

Interest	$ 4,427	$ 848
Income taxes	$ 355	$ 1,185

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

KULICKE AND SOFFA INDUSTRIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

NOTE 1 - BASIS OF PRESENTATION

The condensed consolidated financial statement information included herein is unaudited, but in the opinion of management, contains all adjustments, consisting only of normal recurring adjustments, necessary to present fairly the Company s financial position at December 31, 2004, the results of its operations for the three month periods ended December 31, 2003 and 2004, and its cash flows for the three month periods ended December 31, 2003 and 2004. The results of operations for interim periods are not necessarily indicative of the results that may be expected for a full year. These financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company s Annual Report on Form 10-K for the fiscal year ended September 30, 2004.

In February 2004, the Company sold the remaining assets of its advanced packaging technology segment, which consisted solely of the flip chip business unit which licensed flip chip technology and provided flip chip bumping and wafer level packaging services. As a result, we have reflected the flip chip business unit as a discontinued operation and do not include the results of its operations in our revenues and expenses from continuing operations as reported in our financial statements and this discussion of our results of operations.

During the three months ended December 31, 2004, the Company sold the land and building held through the variable interest entity that was previously consolidated into the Company s financial statements. The impact of this sale decreased assets and liabilities by approximately $5.8 million and $5.5 million, as of December 31, 2004.

Certain amounts in the Company s prior fiscal year financial statements have been reclassified to conform to their presentation in the current fiscal year.

NOTE 2 RECENT ACCOUNTING PRONOUNCEMENTS

In November 2004, the FASB issued Statement of Financial Accounting Standards No. 151, Inventory Costs an amendment of ARB 43, chapter 4 (FAS 151). FAS 151 clarifies the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage) in the determination of inventory carrying costs. The statement requires such costs be recognized as a current-period expense. FAS 151 also requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. This statement is effective for fiscal years beginning after July 15, 2005. The Company does not expect the adoption of this standard to have a material impact on its financial condition or results of operations.

In December 2004, the FASB issued Statement of Financial Accounting Standards No. 123R (revised 2004), Share-Based Payment (FAS 123R). In summary, FAS 123R requires companies to expense the fair value of employee stock options and similar awards as of the date the Company grants the awards to employees. The expense would be recognized over the vesting period for each option and adjusted for actual forfeitures that occur before vesting. The effective date for this standard is interim and annual periods beginning after June 15, 2005, and applies to all outstanding and unvested share-based payment awards at a company s adoption date. The Company is currently assessing each of the three transition methods offered by FAS 123R and believes adoption of FAS 123R will have a material impact on its consolidated financial statements, regardless of the method selected.

NOTE 3 ACCOUNTING FOR STOCK-BASED COMPENSATION

The Company accounts for stock option grants using the intrinsic value method prescribed by Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees* (APB No. 25), and discloses the pro forma effect on net income and earnings per share as if the fair value method had been applied to stock option grants, in accordance with SFAS 123, *Accounting For Stock-Based Compensation.*

At December 31, 2004, the Company had five stock-based employee compensation plans and two director compensation plans. No stock-based employee or director compensation cost is reflected in net income (loss), as all options granted under those plans had an exercise price equal to the market value of the underlying common stock on the date of grant. The following table illustrates the effect on net income (loss) and earning (loss) per share if the Company had applied the fair value recognition provisions of FASB Statement No. 123, *Accounting for Stock-Based Compensation*, to stock-based employee and director compensation:

	(in thousands) Three months ended December 31, 2003	*(in thousands)* Three months ended December 31, 2004
Net income (loss), as reported	$ 747	$ (7,191)
Deduct: Total stock-based compensation expense determined under fair value based method for all awards, net of related tax effects	(2,608)	(5,476)
Pro forma net loss	$ (1,861)	$ (12,667)
Net income (loss) per share:		
Basic-as reported	$ 0.01	$ (0.14)
Basic-pro forma	$ (0.04)	$ (0.25)
Dilued - as reported	$ 0.01	$ (0.14)
Diluted - pro forma	$ (0.04)	$ (0.25)

NOTE 4 - GOODWILL AND OTHER INTANGIBLES

The Company s goodwill and intangible assets relate to two reporting units. The reporting units are the bonding wire, which is included in the Company s Packaging Materials segment, and test businesses, which comprise the Company s Test segment.

The intangible assets that are classified as goodwill and those with indefinite lives are not amortized. Intangible assets with determinable lives are amortized over their estimated useful life. The Company performs its annual impairment test at the end of the fourth quarter of each fiscal year, which coincides with the completion of its annual forecasting process. The Company also tests for impairment between its annual tests if a triggering event occurs that may have the effect of reducing the fair value of a reporting unit below its carrying value. When conducting its goodwill impairment analysis, the Company calculates its potential impairment charges based on the two-step test identified in SFAS 142 and using the implied fair value of the respective reporting units. The Company uses the present value of future cash flows from the respective reporting units to determine the implied fair value. The Company s intangible assets other than goodwill are tested for impairment based on undiscounted cash flows, and if impaired, written-down to fair value based on either discounted cash flows or appraised values. The Company s intangible assets in its Test business segment are comprised of customer accounts and complete technology. The Company manages and values its complete technology in the aggregate as one asset group.

During the three months ended December 31, 2004 and 2003, the Company performed interim impairment tests on our Test segment goodwill due to the existence of an impairment trigger, which was the losses experienced in our test business during these same periods. Based on these test results, no impairment charges were recorded during each of these periods. The fair value of the Test segment was based on discounted cash flows of our projected future cash flows from this segment, consistent with the methods used in past periods. In accordance with SFAS 144, Accounting for the Impairment or Disposal of Long-lived Assets, the Company also tested our intangible assets for impairment during these same quarters. Based on these test results, no impairment charges were recorded during each of these periods. The fair value of the intangible assets were based on projected future undiscounted cash flows.

The recorded value of goodwill at September 30, 2004 and December 31, 2004, was $81.4 million.

The changes in the carrying value of the Company s identifiable intangible assets for the Test business segment from September 30, 2004 and December 31, 2004 appear below:

	(in thousands)		
	Customer Accounts	**Technology**	**Total Intangible Assets**
Net intangible balance at September 30, 2004	$ 25,339	$ 28,706	$ 54,045
Additions		1,000	1,000
Amortization	(1,028)	(1,228)	(2,256)
Total	(1,028)	(228)	(1,256)
Net intangible balance at December 31, 2004	$ 24,311	$ 28,478	$ 52,789

The $1.0 million increase in the Test segment s Technology intangible assets was for a technology license to be used in the development of new products. The aggregate amortization expense related to these intangible assets for the three months ended December 31, 2003 was $2.3 million and for the three months ended December 31, 2004 was $2.2 million. The annual amortization expense related to these intangible assets for each of the next five fiscal years is expected to be approximately $9.0 million.

NOTE 5 - INVENTORIES

Inventories consist of the following:

	(in thousands)	
	September 30, 2004	**December 31, 2004**
Raw materials and supplies	$ 45,411	$ 50,022
Work in process	12,350	9,534
Finished goods	13,373	11,806
	71,134	71,362
Inventory reserves	(13,117)	(13,506)
	$ 58,017	$ 57,856

NOTE 6 PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consist of the following:

	(in thousands)	
	September 30, 2004	**December 31, 2004**
Land	$ 1,843	**$ 340**
Buildings and building improvements	11,533	**5,395**
Machinery and equipment	132,184	**134,830**
Leasehold improvements	14,736	**15,978**
	160,296	**156,543**
Accumulated depreciation	(108,862)	**(111,869)**
	$ 51,434	**$ 44,674**

In October 2004, the company sold the land and building in Arizona amounting to $5.8 million. The company included the gain on sale of assets of $1.5 million in its statement of operations during the quarter ended December 31, 2004.

In November 2004, the company sold land and building housing its corporate headquarters in Willow Grove, Pennsylvania for $11.2 million, resulting in a gain on the sale of $4.5 million. The company subsequently leased the building back from the buyer, requiring deferral of the gain as of the closing date and recognition of such gain ratably over the leaseback period. The remainder of the deferred gain is included in accrued expenses and other long-term liabilities at December 31, 2004.

NOTE 7 - EARNINGS PER SHARE

Basic net income (loss) per share (EPS) is calculated using the weighted average number of shares of common stock outstanding during the period. The calculation of diluted net income (loss) per share assumes the exercise of stock options and the conversion of convertible securities to common shares unless the inclusion of these will have an anti-dilutive impact on net income (loss) per share. In addition, in computing diluted net income per share, if convertible securities are assumed to be converted to common shares the after-tax amount of interest expense recognized in the period associated with the convertible securities is added back to net income. For the three months ended December 31, 2004, the exercise of stock options and conversion of the 1.0% and 0.5% convertible subordinated notes were not assumed since their conversion to common shares would have an anti-dilutive effect due to the Company s net loss position. For the three months ended December 31, 2003, $63 thousand dollars of after-tax interest expense, related to the 0.5% Convertible Subordinated Notes, was added to the Company s net income to determine diluted earnings per share. Also, for the three months ended December 31, 2003 conversion of the 5.25% and 4.75% (for the period of time this security was outstanding) convertible subordinated notes were not assumed since their conversion to common shares would have an anti-dilutive effect on net income per share.

A reconciliation between the weighted average number of basic shares outstanding and the weighted average number of fully diluted shares outstanding at December 31, 2003 and December 31, 2004 appears below:

	(in thousands) **Three months ended December 31,**	
	2003	**2004**
Weighted average shares outstanding - Basic	50,392	51,237
Potentially dilutive securities:		
Employee stock options	2,722	*
1 % Convertible subordinated notes	N/A	*
1/2% Convertible subordinated notes	3,818	*
4 ^{3}/4% and 5 ^{1}/4% Convertible subordinated notes	*	*
Total potentially dilutive securities	6,540	*
Weighted average shares outstanding - Diluted	56,932	51,237

* The weighted average number of shares for potentially dilutive securities that were anti-dilutive and therefore not included in the above table, for the convertible notes for the three months ended December 31, 2003 were 13,556,923 and convertible notes and employee and director stock options, for the three months ended December 31, 2004 were 15,849,873.

NOTE 8 RESIZING

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

In summary, provisions for resizing plans were recorded during the second, third and fourth quarters of fiscal 2002. These charges were for:

Closure of substrate operations.

Reduction in headcount and consolidation of manufacturing operations in the Company s Test division.

Functional realignment of business management and the consolidation and closure of certain facilities.

In fiscal 2004, the Company reversed $68 thousand of these resizing charges and in fiscal 2003 the Company reversed $455 thousand of these resizing charges due to the actual severance cost associated with the terminated positions being less than the cost originally estimated.

A summary of the charges, reversals and payments of the resizing activities during the first quarter of fiscal 2005, fiscal 2004, 2003 and 2002 are as follows:

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

Balance, September 30, 2004	367	3,171	3,538
Payment of obligations	(126)	(675)	(801)
Balance, December 31, 2004	$ 241	$ 2,496	$ 2,737

The remaining severance and benefits obligations are expected to paid out through March 2005. The commitments, which are primarily for lease and related facility obligations, are expected to be paid out through September 2006.

NOTE 9 COMPREHENSIVE INCOME (LOSS)

For the three month periods ended December 31, 2003 and 2004, the components of total comprehensive income (loss) are as follows:

	(in thousands) Three months ended December 31,	
	2003	2004
Net income (loss)	$ 747	$ (7,191)
Foreign currency translation adjustment	911	2,867
Unrealized loss on investments, net of taxes		(9)
Other comprehensive income	911	2,858
Comprehensive income (loss)	$ 1,658	$ (4,333)

NOTE 10 - OPERATING RESULTS BY BUSINESS SEGMENT FOR CONTINUING OPERATIONS

Operating results by business segment for the three month periods ended December 31, 2004 and 2003 were as follows:

Fiscal 2004 *(in thousands)***:**

	Equipment Segment	Packaging Materials Segment	Test Segment	Corporate and Other	Consolidated
Quarter ended December 31, 2004:					
Net revenue	$ 29,349	$ 64,018	$ 22,954	$	$ 116,321
Cost of sales	17,326	51,252	21,365		89,943
Gross profit	12,023	12,766	1,589		26,378
Operating costs	12,077	6,293	10,946	3,829	33,145
Gain on sale of assets			(1,497)	(378)	(1,875)
Income (loss) from operations	$ (54)	$ 6,473	$ (7,860)	$ (3,451)	$ (4,892)
Segment Assets at December 31, 2004	$ 59,102	$ 125,511	$ 152,365	$ 135,761	$ 472,739

Fiscal 2003 *(in thousands)***:**

	Equipment Segment	Packaging Materials Segment	Test Segment	Corporate and Other (1)	Consolidated
Quarter ended December 31, 2003:					
Net revenue	$ 81,080	$ 49,508	$ 23,281	$	$ 153,869
Cost of sales	49,124	38,090	19,293		106,507
Gross profit	31,956	11,418	3,988		47,362
Operating costs	14,668	5,224	10,783	4,532	35,207
Income (loss) from operations	$ 17,288	$ 6,194	$ (6,795)	$ (4,532)	$ 12,155
Segment Assets at December 31, 2003	$ 108,902	$ 97,057	$ 170,362	$ 128,350	$ 504,671

(1) Prior period income statement has been revised to reflect accounting for the sale of the Company s Flip Chip business as a discontinued operation in accordance with the requirement of FAS 144. Assets for the Flip Chip business are included in Corporate & Other.

NOTE 11 GUARANTOR OBLIGATIONS, COMMITMENTS, CONTINGENCIES AND CONCENTRATIONS

Guarantor Obligations

The Company has issued standby letters of credit for employee benefit programs, a facility lease, and a customs bond, and its wire manufacturing subsidiary has issued a guarantee for payment under its gold supply financing arrangement. The guarantee for the gold supply financing arrangement is secured by the assets of the Company s wire manufacturing subsidiary and contains restrictions on that subsidiary s net worth, ratio of total liabilities to net worth, ratio of EBITDA to interest expense and ratio of current assets to current liabilities.

The table below identifies the guarantees under the standby letters of credit.

Nature of guarantee	**Term of guarantee**	***(in thousands)*** **Maximum obligation under guarantee**
Security for the Company s gold financing arrangement	Expires June 2006	$ 17,000
Security deposit for payment of employee health benefits	Expires June 2005	1,710
Security deposit for payment of employee worker compensation benefits	Expires July and October 2005	1,224
Security deposit for a facility lease	Expires July 2005	300
Security deposit for customs bond	Expires July 2005	100
		$ 20,334

The Company s products are generally shipped with a one-year warranty against manufacturing defects and the Company does not offer extended warranties in the normal course of its business. The Company reserves for estimated warranty expense when revenue for the related product is recognized. The reserve for estimated warranty expense is based upon historical experience and management estimates of future expenses.

The table below details the activity related to the Company s reserve for product warranty expense for the three months ended December 31, 2004:

	Three months ended December 31,	
	2003	**2004**
Reserve for product warranty at beginning of quarter	$ 1,008	$ 956
Provision for product warranty expense	695	144
Product warranty costs incurred	(607)	(504)
Reserve for product warranty at end of quarter	$ 1,096	$ 596