

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

FORM 10-K

(MARK ONE)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934 (NO FEE REQUIRED)

For the fiscal year ended SEPTEMBER 30, 1999

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934 (NO FEE REQUIRED)

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
(I.R.S. Employer
Identification No.)

2101 BLAIR MILL ROAD, WILLOW GROVE, PA 19090
(Address of principal executive offices) (zip code)

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

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 Class)

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 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.

The aggregate market value of the Registrant's common stock (its only voting stock) held by non-affiliates of the Registrant as of DECEMBER 1, 1999 was approximately \$822,190,000. (Reference is made to the final paragraph of Part II, Item 5 herein for a statement of assumptions upon which this calculation is based).

As of DECEMBER 1, 1999, there were 23,568,851 shares of the Registrant's common stock, without par value, outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's Proxy Statement for the 2000 Annual Shareholders' Meeting to be filed prior to January 8, 2000 are incorporated by reference into Part III, Items 10, 11, 12 and 13 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.
1999 ANNUAL REPORT ON FORM 10-K

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PART I

In addition to historical information, this report 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 and Section 21E of the Securities 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, gross margins, operating expenses, cost savings expected from the transfer of our automatic ball bonder manufacturing to Singapore and benefits expected as a result of:

- o The projected growth rates in the overall semiconductor industry, the semiconductor assembly equipment market and the market for semiconductor packaging materials;
- o the anticipated development, production and licensing of our advanced packaging technology;
- o the projected continuing demand for wire bonders; and
- o the anticipated growing importance of the flip chip assembly process in high-end market segments.

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

Forward-looking statements are based on current expectations and involve risks and uncertainties and our future results could differ significantly from those expressed or implied by our forward-looking statements. These risks and uncertainties include, without limitation those described under Item 1. Business and Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

ITEM 1. BUSINESS.

We design, manufacture and market capital equipment and packaging materials for sale to companies that manufacture and assemble semiconductor devices. We also service, maintain, repair and upgrade assembly equipment. Today, we are the world's largest supplier of semiconductor assembly equipment, according to VLSI Research, Inc. Our business is divided into three segments: equipment, packaging materials and advanced packaging technology.

Historically, the demand for semiconductors and our semiconductor assembly equipment has been volatile from period to period. A downturn in the semiconductor industry began in fiscal 1998 and continued through the first half of fiscal 1999, contributing to our net losses for fiscal years 1998 and 1999. The semiconductor industry began to rebound in the second half of 1999, and we reported strong fourth quarter results, with net sales of \$153.4 million and net income of \$7.4 million, compared to net sales of \$76.2 million and a net loss of \$18.3 million in the fourth quarter of 1998, and net sales of \$110.8 million and a net loss of \$0.7 million in the third quarter of 1999.

Kulicke and Soffa Industries, Inc. was incorporated in Pennsylvania in 1956. Our principal offices are located at 2101 Blair Mill Road, Willow Grove, Pennsylvania 19090 and our telephone number is (215) 784-6000.

PRODUCTS AND SERVICES

We offer a broad range of semiconductor assembly equipment, packaging materials, advanced packaging technologies and complementary services and spare parts used in the semiconductor assembly process. Set forth below is a table listing the approximate percentage of our net sales by principal product for our fiscal years ended September 30, 1999, 1998 and 1997.

	FISCAL YEAR ENDED		
	SEPTEMBER 30,		
	1999	1998	1997
	----	----	----
Wire bonders	55%	58%	65%
Additional assembly equipment	7	7	7
Services and spare parts	6	8	6
Packaging materials	31	27	22
Advanced packaging technologies	1	--	--
	---	---	---
	100%	100%	100%
	===	===	===

See Note 11 to our Consolidated Financial Statements for financial results by Business segment.

WIRE BONDERS

Our principal product line is our family of wire bonders, which are used to connect extremely fine wires, typically made of gold or aluminum, between the bonding pads on the die and the leads on the integrated circuit (IC) package to which the die has been bonded. We offer both ball and wedge bonders in automatic and manual configurations. Ball bonders typically are used for leadframe-based and laminate-based packages, while wedge bonders typically are used for ceramic packages. We believe that our wire bonders offer competitive advantages based on high productivity and superior process control, enabling fine pitch bonding and long, low wire loops, which are needed to assemble advanced IC packages. The selling prices for our automatic wire bonders range from \$60,000 to over \$200,000 and from \$8,000 to \$40,000 for manual wire bonders, in each case depending on system configuration and purchase volume.

Our current generation of wire bonders, the 8000 family, is based on an entirely new platform and required us to develop new software and many subassemblies that were not part of our prior series of wire bonders. The first products in the 8000 family were the Model 8020 ball bonder and Model 8060 wedge bonder. In the third quarter of fiscal 1999, we introduced the Model 8028 ball bonder and began to shift production capacity from the Model 8020 ball bonder. By the end of the fourth quarter of fiscal 1999, the Model 8028 accounted for the majority of ball bonders we sold due to its superior technical performance and productivity.

We continue to market the Model 8060 wedge bonder, which we introduced during the fiscal 1997 fourth quarter and began shipping in volume in the first quarter of fiscal 1998, the Model 8090, a large area wedge bonder we introduced during the first quarter of fiscal 1998 and the 4500 digital series of manual wire bonders. We also continue to develop a new wire bonder platform to meet expected customer requirements.

As part of our strategy to reduce the manufacturing costs of our wire bonders, we plan to transfer our automatic ball bonder manufacturing from Willow Grove, Pennsylvania to a 74,000 square foot facility in Singapore. We expect the Singapore facility to be fully operational in late fiscal 2000.

ADDITIONAL SEMICONDUCTOR ASSEMBLY EQUIPMENT

In addition to wire bonders, we produce and distribute other types of semiconductor assembly equipment, including wafer dicing saws and die bonders, flip chip assembly systems and factory automation and integration systems.

Dicing Saws. Dicing saws use diamond-embedded saw blades to cut silicon wafers into individual semiconductor die. We presently produce and market two dicing saws: the Model 7500, an automatic dicing saw, and the Model 7700 twin spindle dicing saw, which was introduced during the fourth quarter of fiscal 1999. These dicing saws range in price from \$150 to more than \$400.

Die Bonders. Die bonders are used to attach a semiconductor die to a leadframe or other package before wire bonding. We have a 5 year distribution agreement with DATACON Semiconductor Equipment GmbH, an Austrian company, principally to market their multi chip module and flip chip die bonder product line worldwide, excluding Europe. The die bonders range in price from \$200,000 to more than \$500,000, depending on configuration. In the fourth quarter of fiscal 1999, we began marketing the 2200 apm, an extremely accurate multi chip bonder developed by DATACON. We have received several orders for the 2200 apm.

Flip Chip Assembly Systems. Flip chip is an alternative assembly technique in which the die is inverted and attached to the package or board using conductive bumps, thereby eliminating the need for conventional die or wire bonding. The Model 2200 apm, manufactured by DATACON Semiconductor Equipment GmbH and distributed by us, can be configured to support flip chip applications. Selling prices for flip chip applications exceed \$300,000.

Factory Automation and Integration Systems. Factory systems include products and services designed to automate data collection and material flow between process steps in semiconductor assembly. We are

successfully marketing the Knet, a PC-based information management system, as well as several software products for factory simulation and lot management.

We also offer different configurations of some of our products for non-semiconductor applications. For instance, our Model 980 saw can be configured for cutting and grinding hard and brittle materials, such as ceramic, glass and ferrite, that are used in the fabrication of chip capacitors or disk drive heads.

PACKAGING MATERIALS

We offer a range of packaging materials to semiconductor device assemblers which we sell under the brand names "American Fine Wire," "Micro-Swiss," "Semitec" and "Advanced Polymer Solutions." We have integrated these operating units with our equipment groups, and intend to expand this business in an effort to increase our revenues from materials used in the assembly of ICs. We also sell our packaging materials for use with competitors' assembly equipment. Our principal packaging materials are:

Bonding Wire. American Fine Wire is a manufacturer of very fine (typically 0.001 inches in diameter) gold, aluminum and copper wire used in the wire bonding process. American Fine Wire produces wire to a wide range of specifications, which can satisfy most wire bonding applications.

Expendable Tools. The Micro-Swiss family of expendable tools includes capillaries, wedges, die collets, saw blades and microspheres. Capillaries and wedges are used to feed out, attach and cut the wires used in wire bonding. Die collets are used to pick up and place die into packages. Micro-Swiss brand hubless saw blades are used to cut hard and brittle materials. Semitec, which we acquired in October 1996, manufactures hub blades that are used to cut silicon wafers into semiconductor die.

Die Attach Adhesives. Advanced Polymer Solutions, a joint venture company that we established in the first quarter of fiscal 1999 with Polysset, Inc., currently offers two die attach adhesive formulations based on epoxy siloxane chemistry. The first is a fast curing adhesive that can eliminate the need for oven curing, reducing handling and processing time during the assembly of semiconductors. The second provides a high degree of moisture resistance for increased package reliability. Additional products planned for introduction in fiscal 2000 include flip chip underfills and liquid encapsulants.

SERVICES AND SPARE PARTS

We believe that our knowledge and experience have positioned us to deliver innovative, customer-specific services that reduce the cost of owning our equipment. Historically, our offerings in this area were limited to spare parts, customer training and extended warranty contracts. In response to customer trends in outsourcing packaging requirements, we are focusing on providing repair and maintenance services, a variety of equipment upgrades, machine and component rebuild activities and expanded customer training through a Value-Added Products and Services Organization. These services are generally priced on a time and materials basis. The service and maintenance arrangements are typically subject to bi-annual or multi-year contracts.

INVESTMENT IN ADVANCED PACKAGING TECHNOLOGIES

In February 1996, we entered into a joint venture agreement with Delco Electronics Corporation to license flip chip technology and to provide wafer bumping services on a contract basis through Flip Chip Technologies, LLC. Flip Chip Technologies intends to focus primarily on licensing its flip chip technology to customers. As of September 30, 1999, Flip Chip Technologies had sold one license and we expect it to sell additional licenses in fiscal 2000. In addition, Flip Chip Technologies completed construction of its manufacturing facility in Phoenix, Arizona during fiscal 1997, has commenced production and currently is providing contract bump services to customers and is working with other customers to have its manufacturing processes qualified. In March of 1998, Flip Chip Technologies introduced a new wafer level chip scale package, named the Ultra CSP(TM), aimed at the chip scale packaging market. A chip scale device has a surface area no larger than 1.2 times the area of the die. Flip Chip Technologies' Ultra CSP package has been qualified and is currently being shipped to customers.

On May 31, 1999, we increased our ownership interest in Flip Chip Technologies to 73.6% by converting all of our outstanding loans and accrued interest into equity units. Under various operating agreements, we manage Flip Chip Technologies jointly with Delco and have agreed not to compete with the joint venture. Flip Chip Technologies has also entered into various agreements with Delco that are customary in similar joint venture

arrangements.

We continuously evaluate investments in advanced packaging technologies. To that end, in February 1999, we acquired the X-LAM technology of MicroModule Systems(TM), a Cupertino, California company, to enable production of high performance ball grid array substrates, daughter cards and multi-layer boards. In the fourth quarter of fiscal 1999, we leased a 35,000 square foot manufacturing/research and development facility in Milpitas, California and are building a staff to fully develop and market the technology.

To date our Advanced Packaging Technology business has experienced losses. We expect these losses to continue at least through fiscal 2000.

CUSTOMERS

Our major customers include large semiconductor manufacturers and subcontract assemblers worldwide. Some of these major customers are:

Advanced Micro Devices	Lucent Technologies
Advanced Semiconductor Engineering	Micron Technology
Amkor Technologies	Motorola
Anam	National Semiconductor
ChipPAC	Orient Semiconductor Electronics
Fujitsu	Philips Electronics
IBM	ST Microelectronics
Infineon Technologies	Siliconware Precision
Intel	Texas Instruments

Sales to a relatively small number of customers have accounted for a significant percentage of our net sales. In fiscal 1999, no customer accounted for more than 10% of net sales, but in fiscal 1998 sales to Intel accounted for 17.6% of our net sales, and in fiscal 1997 sales to Anam accounted for 12.5% of our net sales and sales to Intel accounted for 10.2% of our net sales.

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

INTERNATIONAL OPERATIONS

We sell our products to semiconductor device manufacturers and contract manufacturers, which are primarily located in or have operations in the Asia/Pacific region. Approximately 83% of our fiscal 1999 net sales, 80% of our fiscal 1998 net sales and 85% of our fiscal 1997 net sales were for delivery to customer locations outside of the United States. The majority of these foreign sales were destined to customer locations in the Asia/Pacific region, including Taiwan, Korea, Malaysia, the Philippines, Singapore, Hong Kong and Japan. We expect sales outside of the United States to continue to represent a substantial portion of our future revenues.

In addition, we maintain manufacturing operations in countries other than the United States, including operations located in Israel, Singapore and Switzerland. Risks associated with our international operations include risks of foreign currency and foreign financial market fluctuations, international exchange restrictions, changing political conditions and monetary policies of foreign governments, war, civil disturbances, expropriation, or other events which may limit or disrupt markets.

SALES AND CUSTOMER SUPPORT

We established a single sales management team in the third quarter of fiscal 1999 to coordinate activities and improve customer support. Our direct sales force, consisting of approximately 80 individuals at September 30, 1999, is responsible for the sale of all product lines, including those of our equipment, packaging materials and advanced packaging technology businesses, to customers in the United States and the Asia/Pacific region, including Japan. Lower volume product lines, as well as all equipment sales to customers in Europe, are sold through a network of manufacturers' representatives.

We believe that providing comprehensive worldwide sales, service, training and support are important competitive factors in the semiconductor equipment industry, and we have combined these functions into a customer operations group. In order to support our U.S. and foreign customers whose semiconductor assembly operations are located in the Asia/Pacific region, we maintain a significant presence in the region, with sales facilities in Hong Kong, Japan, Korea, Taiwan, Malaysia, the Philippines and Singapore, a technology center in Japan and application labs in

Singapore. We also maintain customer resource centers in Taiwan, the Philippines and Singapore. We support our assembly equipment customers worldwide with over 175 customer service and support personnel as of September 30, 1999, located in the United States, Hong Kong, Japan, Korea, Malaysia, the Philippines, Singapore, Taiwan and Thailand. Our local presence in the Asia/Pacific countries enables us to provide more timely customer service and support by positioning our service representatives and spare parts near customer facilities, and affords customers the ability to place orders locally and to deal with service and support personnel who speak the customer's language and are familiar with local country practices.

BACKLOG

At September 30, 1999, our backlog of orders approximated \$93.0 million, compared to approximately \$54.0 million at September 30, 1998. Our backlog consists of product orders for which we have received confirmed purchase orders, and which are scheduled for shipment within 12 months. Virtually all orders are subject to cancellation, deferral or rescheduling by the customer with limited or no penalties. Because of the possibility of customer changes in delivery schedules or cancellations and potential delays in product shipments, our backlog as of any particular date may not be indicative of revenues for any succeeding quarterly period.

MANUFACTURING

Equipment. Our assembly equipment manufacturing activities consist primarily of integrating components and subassemblies to create finished systems configured to customer specifications. During fiscal 1999, we performed system design, assembly and testing in-house at our Willow Grove, Pennsylvania and Haifa, Israel facilities, utilizing an outsourcing strategy for the manufacture of many of our major subassemblies. We believe that outsourcing enables us to minimize our fixed costs and capital expenditures and allows us to focus on product differentiation through system design and quality control. Our just-in-time inventory management strategy has reduced our manufacturing cycle times and limited our on-hand inventory. This strategy will continue at our new facility in Singapore, sourced largely by local suppliers. We have obtained ISO 9001 certification for operations in our Willow Grove, Pennsylvania facility and for our Haifa, Israel equipment manufacturing facility, and will apply for ISO 9001 certification of our new facility in Singapore.

Packaging Materials. We manufacture our Micro-Swiss expendable tools at our facility in Yokneam, Israel and our American Fine Wire product line, consisting of gold and aluminum bonding wire, at facilities in Selma, Alabama, Singapore and Thalwil, Switzerland. We manufacture our Semitec hub blades in Santa Clara, California. We manufacture our Advanced Polymer Solutions adhesives in our Willow Grove, Pennsylvania facility. All three American Fine Wire facilities, as well as the Semitec facility, have received ISO 9002 certification and the Micro-Swiss facility has received ISO 9001 certification.

Advanced Packaging Technology. We also maintain manufacturing facilities in Phoenix, Arizona for Flip Chip Technologies and in Milpitas, California for our X-LAM technology.

RESEARCH AND PRODUCT DEVELOPMENT

Because technological change occurs rapidly in the semiconductor industry, we devote substantial resources to our research and development programs to maintain our competitiveness. We employed approximately 380 individuals in research and development at September 30, 1999. We pursue the continuous improvement and enhancement of existing products while simultaneously developing next generation products. For example, while the performance of current generations of wire bonders is being enhanced in accordance with a specific continuous improvement plan, we are simultaneously developing the next generation wire bonders. Much of the next generation equipment we are presently developing is based on modular, interchangeable subsystems, including the 8000 control platform, which we believe will promote more efficient and cost-effective manufacturing operations, lower inventory levels, improved field service capabilities and shorter product development cycles, and allow us to introduce new products more quickly. In fiscal 1999, we introduced two new bonders based on technology developed for earlier models of the 8000 family, the Model 8028, an automatic ball bonder that offers increased accuracy and productivity over its predecessor, the Model 8020, and the Model 8098, which is used for large area ball bonding and wafer level ball bumping.

Our net expenditures for research and development totaled approximately \$37.2 million, \$48.7 million and \$46.0 million during the fiscal years ended September 30, 1999, 1998 and 1997, respectively. We have received funding from certain customers and government agencies pursuant to contracts or other arrangements for the performance

of specified research and development activities. Such amounts are recognized as a reduction of research and development expense when specified activities have been performed. During the fiscal years ended September 30, 1999, 1998 and 1997, such funding totaled approximately \$1.3 million, \$1.7 million and \$2.0 million, respectively.

COMPETITION

The semiconductor equipment and packaging materials industries are intensely competitive. Significant competitive factors in the semiconductor equipment market include performance quality, customer support and price. Our major equipment competitors include:

- o ASM Pacific Technology, Shinkawa, Kaijo and ESEC in wire bonders;
- o ESEC, Nichiden, ASM Pacific Technology and Alphasem in die bonders; and
- o Disco Corporation in dicing saws.

Competitive factors in the semiconductor packaging materials industry include price, delivery and quality. Our significant packaging materials competitors with respect to expendable tools and blades include:

- o Gaiser Tool Co. and Small Precision Tools, Inc. in expendable tools; and
- o Disco Corporation in blades;

and in the bonding wire market:

- o Tanaka Electronic Industries and Sumitomo Metal Mining.

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 than we have. Some of these competitors are Japanese or Korean companies that have had and may continue to have an advantage over us in supplying products to local customers because many of these customers appear to prefer to purchase from local suppliers, without regard to other considerations.

We expect our competitors to improve their current products' performance, and to introduce new products with improved price and performance characteristics. New product 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 for a particular assembly operation, we may not be able to sell a product to that manufacturer or assembler for a significant period of time because manufacturers and assemblers sometimes develop lasting relations with suppliers, and products 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 could materially and adversely affect our business, financial condition and operating results. We cannot assure you that we will be able to continue to compete in these or other areas in the future.

INTELLECTUAL PROPERTY

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

In addition, we believe that much of our important technology resides in our proprietary software and trade secrets. As long as we rely on trade secrets and unpatented knowledge, including software, to maintain our competitive position, there is no assurance that competitors may not independently develop similar technologies and possibly obtain patents containing claims applicable to our products and processes. The sale of our products covered by such patents could require licenses that may not be available on acceptable terms, or at all. In addition, although we execute non-disclosure and non-competition agreements with certain of our employees, customers,

consultants, selected vendors and others, there is no assurance that such secrecy agreements will not be breached.

ENVIRONMENTAL MATTERS

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

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

EMPLOYEES

At September 30, 1999, we had 2,239 permanent employees, 33 temporary employees and 145 contract personnel worldwide. Our only employees represented by a labor union are America Fine Wire's employees in Singapore. Most of the employees at our new automatic ball bonder manufacturing facility in Singapore will also be members of that union. Generally, we believe our employee relations to be good. Competition in the recruiting of personnel in the semiconductor and semiconductor equipment industry is intense, particularly with respect to software engineering. We believe that our future success will depend in part on our continued ability to hire and retain qualified management, marketing and technical employees.

EXECUTIVE OFFICERS OF THE COMPANY

The following table sets forth certain information regarding the executive officers of the Company.

Name	Age	First Became an Officer (calendar year)	Position
----	---	-----	-----
C. Scott Kulicke	50	1976	Chairman of the Board of Directors and Chief Executive Officer
Morton K. Perchick	62	1982	Executive Vice President
David A. Leonhardt	41	1997	Senior Vice President
Charles Salmons	44	1992	Senior Vice President
Clifford G. Sprague	56	1989	Senior Vice President and Chief Financial Officer
Walter Von Seggern	59	1992	Senior Vice President
Laurence P. Wagner	39	1998	Senior Vice President

C. Scott Kulicke has been Chief Executive Officer since 1979 and Chairman of the Board since 1984. Prior to that he held a number of executive positions with us. Mr. Kulicke is the son of Frederick W. Kulicke, Jr., a member of the Board of Directors. Mr. Kulicke also serves on the Board of Directors of General Semiconductor, Inc.

Morton K. Perchick joined us in 1980 and has served in various executive positions, most recently as Senior Vice President, prior to being appointed Executive Vice President in July 1995.

David A. Leonhardt joined us in 1982 as an engineer in wedge bonder development and was promoted to various positions in engineering, product management and new product development. In 1997 he was appointed Vice President of Strategic Marketing and then Vice President of the Ball Bonder Division and in March 1998 was named Vice President and General Manager, Sales and Marketing, for the Equipment Group. Mr. Leonhardt was promoted to his current position of Senior Vice President, as co-head of our equipment and materials businesses, in September 1999.

Charles Salmons joined us in 1978 as an accountant and was promoted to various positions in accounting, production and operations. In 1992 he was appointed Vice President Manufacturing, in 1994 he was appointed Vice President Operations, in 1996 he was appointed Vice President Product Development Programs and in March 1998 was named Vice President and General Manager, Operations, for the Equipment Group. Mr. Salmons was promoted to his current position of Senior Vice President Customer Operations in September 1999.

Clifford G. Sprague joined us in March 1989 as Vice President and Chief Financial Officer and was promoted to Senior Vice President in 1990. Prior to joining us, he served for more than five years as Vice President and Contoller of the Oilfield Equipment Group of NL Industries, Inc., an oilfield equipment and service company.

Walter E. Von Seggern joined us in September 1992 as Vice President of Engineering and Technology. He was appointed Senior Vice President in December 1996, and was in charge of Marketing from April 1997 until early 1998 when he was placed in charge of new equipment business opportunities. Mr. Von Seggern has also served as President of Advanced Polymer Solutions LLC, a joint venture of ours, since December 1998. From April 1988 to April 1992, he worked for M/A-Com, Inc. He was General Manager of M/A-Com's ANZAC, RGH and Eurotec Divisions from 1990 to 1992, and from 1988 to 1990 he was General Manager of M/A-Com's Radar Products Division.

Laurence P. Wagner joined us in July 1998 as Senior Vice President and President of Packaging Materials and is currently serving as Senior Vice President, as co-head of our equipment and materials businesses. From March 1996 until the time he joined us, Mr. Wagner was Vice President and General Manager of Emcore Electronic Materials, a compound semiconductor materials manufacturer. Before Emcore, Mr. Wagner was the Operating Unit Manager of Shipley Company LLC, a division of Rohm and Haas Company, where he had worked since 1989.

ITEM 2. PROPERTIES.

Our major facilities are described in the table below:

FACILITY -----	APPROXIMATE SIZE -----	FUNCTION -----	PRODUCTS MANUFACTURED -----	LEASE EXPIRATION DATE -----
Willow Grove, Pennsylvania	214,000 sq.ft. (1)	Corp. headquarters, manufacturing, technology center, sales and service	Wire bonders	N/A
Singapore	73,700 sq.ft. (2)	Manufacturing, technology center, sales and service	Wire bonders	September 2002
Haifa, Israel	46,100 sq.ft. (2)	Manufacturing, technology center, assembly systems	Manual wire bonders, dicing saws and automatic multi-process assembly systems	April 2002
Yokneam, Israel	48,400 sq.ft. (1)	Manufacturing, Micro- Swiss operations	Capillaries, wedges and die collets	N/A
Yokneam, Israel	12,000 sq.ft. (2)	Manufacturing, Micro- Swiss operations	Hard material blades	April 2003
Milpitas, California	35,000 sq.ft. (2)	Technology center	Laminate substrates	July 2006
Phoenix, Arizona	45,000 sq.ft. (2)	Technology center, Manufacturing	Wafer bumping services	April 2006
Tokyo, Japan	10,700 sq.ft. (2)	Technology center, sales and service	N/A	(3)
Singapore	35,100 sq.ft. (2)	Manufacturing, American Fine Wire operations	Bonding wire	May 2000
Selma, Alabama	25,600 sq.ft. (2)	Manufacturing, American Fine Wire operations	Bonding wire	October 2017
Thalwil, Switzerland	15,100 sq.ft. (2)	Manufacturing, American Wire Fine operations	Bonding wire	(3)
Santa Clara, California	13,600 sq.ft. (2)	Manufacturing	Dicing saw blades	October 2003

- -----
(1) Owned.
(2) Leased.
(3) Cancellable semi-annually upon six months notice.

We also rent space for sales and service offices in Horsham, Pennsylvania; Santa Clara, California; Mesa, Arizona; Korea; Taiwan; Malaysia; the Philippines; Singapore; and Hong Kong. We believe that our facilities generally are in good condition.

ITEM 3. LEGAL PROCEEDINGS.

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

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

None.

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS.

Our common stock is traded on the Nasdaq National Market under the symbol "KLIC." The following table lists the high and low per share sale prices for our common stock for the periods indicated:

	HIGH ----	LOW ---
Fiscal 1998:		
First Quarter	\$48 1/4	\$16 1/2
Second Quarter	29 5/8	16 1/4
Third Quarter	24 13/16	13 7/8
Fourth Quarter	19 1/2	11 1/2
Fiscal 1999:		
First Quarter	21 7/8	9 3/8
Second Quarter	35 1/4	17 5/8
Third Quarter	29	19
Fourth Quarter	29	19 1/8

On December 1, 1999, there were 664 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. We do not currently pay cash dividends on our common stock and we do not expect to declare cash dividends on our common stock in the near future. We intend to retain earnings to finance the growth of our business. Our Gold Supply Agreement between American Fine Wire and its subsidiaries and their gold supplier contains certain financial covenants and prohibits American Fine Wire from paying any dividends or making any distributions without the consent of the supplier if, following the payment of the dividend or distribution, the net worth of American Fine Wire is less than \$7.0 million.

During fiscal 1999, we contributed 24,461 shares of unregistered common stock, valued at its fair market value, as our matching contribution to our employee 401(k) Plan. Registration of such shares was not required because the transaction did not constitute a "sale" under Section 2(3) of the Securities Act of 1933 or the transaction was exempt pursuant to the private offering provisions of that Act.

For the purposes of calculating the aggregate market value of the shares of our common stock held by nonaffiliates, as shown on the cover page of this report, we have assumed that all the outstanding shares were held by nonaffiliates except for the 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 that there are not other persons who may be deemed to be affiliates of the Company. Further information concerning shareholdings of executive officers, directors and principal shareholders is included in our proxy statement relating to our 2000 Annual Meeting of Shareholders filed or to be filed with the Securities and Exchange Commission.

ITEM 6. SELECTED FINANCIAL DATA.

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

	FISCAL YEARS ENDED SEPTEMBER 30,				
	1999	1998	1997	1996 (1)	1995
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)					
STATEMENT OF OPERATIONS DATA:					
Net sales:					
Equipment	\$ 269,854	\$ 302,107	\$ 391,721	\$ 287,234	\$ 283,835
Packaging materials	124,450	108,933	110,186	93,942	20,674
Advanced packaging technology	4,613	--	--	--	--
Total net sales	398,917	411,040	501,907	381,176	304,509
Cost of goods sold:					
Equipment	188,958	191,948	228,854	163,844	155,195
Packaging materials	90,326	82,259	89,148	75,270	12,262
Advanced packaging technology	6,098	--	--	--	--
Total cost of goods sold	285,382	274,207	318,002	239,114	167,457
Operating expenses:					
Equipment	92,157	107,083	97,143	102,515	71,880
Packaging materials	23,500	24,553	21,029	14,563	3,278
Advanced packaging technology	5,314	--	--	--	--
Corporate (2)	12,296	9,353	8,070	7,566	6,454
Total operating expenses (3)	133,267	140,989	126,242	124,644	81,612
Income (loss) from operations:					
Equipment	(11,261)	3,076	65,724	20,875	56,760
Packaging materials	10,624	2,121	9	4,109	5,134
Advanced packaging technology	(6,799)	--	--	--	--
Corporate (2)	(12,296)	(9,353)	(8,070)	(7,566)	(6,454)
Total income (loss) from operations	(19,732)	(4,156)	57,663	17,418	55,440
Interest, net	3,547	5,514	820	(164)	173
Equity in loss of joint ventures (4)	(10,000)	(8,715)	(6,701)	(994)	--
Other expenses	--	--	--	(630)	--
Income (loss) before taxes	(26,185)	(7,357)	51,782	15,630	55,613
Provision (benefit) for income taxes	(8,221)	(1,917)	13,463	3,783	12,791
Minority interest	1,018	--	--	--	--
Net income (loss)	\$ (16,946)	\$ (5,440)	\$ 38,319	\$ 11,847	\$ 42,822
Basic net income (loss) per common share (5)	\$ (0.72)	\$ (0.23)	\$ 1.84	\$ 0.61	\$ 2.44
Diluted net income (loss) per common share (5)	\$ (0.72)	\$ (0.23)	\$ 1.79	\$ 0.60	\$ 2.23
Shares used in per common share calculations: (5)					
Basic	23,423	23,301	20,871	19,375	17,563
Diluted	23,423	23,301	21,428	19,788	19,590

	AS OF SEPTEMBER 30,				
	1999	1998	1997	1996	1995
(IN THOUSANDS)					
BALANCE SHEET DATA:					
Cash, cash equivalents and short-term investments (7)	\$ 39,345	\$ 106,900	\$ 115,587	\$ 58,422	\$ 38,214
Working capital	167,131	182,181	190,220	113,804	103,909
Total assets	378,145	342,584	376,819	249,554	191,029
Long-term debt (6) (7)	--	--	220	50,712	156
Shareholders' equity	274,776	287,910	291,927	147,489	133,647

- (1) The fiscal 1996 Consolidated Statement of Operations was reclassified for comparative purposes. Also, in October 1995, we acquired American Fine Wire Corporation through the acquisition of all of the common stock of Circle "S" Industries, Inc., the parent corporation of American Fine Wire. American Fine Wire is a manufacturer of fine gold and aluminum wire used in the wire bonding process.
- (2) In January 1999, we purchased the X-LAM technology and fixed assets used in the design, development and manufacture of laminate substrates for \$8.0 million. As a result of this purchase, we recorded a pre-tax charge of approximately \$3.9 million for the writeoff of in-process research and development.
- (3) During fiscal 1999, we announced plans to relocate our automatic ball bonder manufacturing to Singapore. As a result, we recorded a pre-tax charge for severance of approximately \$4.0 million for the elimination of approximately 230 positions and asset writeoff costs of approximately \$1.6 million. In fiscal 1999, we also recorded approximately \$0.4 million for severance related to the reduction in workforce begun in fiscal 1998. During fiscal 1998, we recorded a pre-tax charge of approximately \$8.4 million for severance and product discontinuance as a result of a slowdown in the semiconductor industry. Of this amount \$6.0 million was associated with the equipment business, \$1.7 million with the packaging materials business and \$0.7 million was recorded in corporate expense. During fiscal 1996, we recorded a pre-tax charge in the equipment business of approximately \$3.0 million for severance and the writeoff of costs incurred in connection with the suspended Willow Grove facility expansion as a result of a slowdown in the semiconductor industry.
- (4) Effective May 31, 1999 we increased our ownership interest in Flip Chip Technologies, LLC, from 51.0% to 73.6% by converting all of our outstanding loans to Flip Chip Technologies and accrued interest totaling \$32.8 million into equity units. We accounted for the increase in ownership by the purchase method of accounting and began consolidating the results of Flip Chip Technologies into our financial statements on June 1, 1999. We recognized pre-tax losses of approximately \$12.2 million, \$8.7 million, \$6.7 million and \$1.0 million, representing our share of the losses from our investment in Flip Chip Technologies during fiscal 1999, 1998, 1997 and 1996, respectively. Our financial statements for fiscal 1999 reflect pre-tax losses at Flip Chip Technologies of \$3.0 million for the four months after we began reporting Flip Chip Technologies on a consolidated basis and a loss of \$9.2 million for the eight months when Flip Chip Technologies was accounted for by the equity method of accounting and reflected in Equity in Loss of Joint Ventures.
- (5) Because we had a net loss for each of the fiscal years ended September 30, 1999 and 1998, only the common shares outstanding have been used to calculate both the basic earnings per common share and diluted earnings per common share for these years because the inclusion of the potential common shares would be anti-dilutive.
- (6) Does not include letters of credit or foreign exchange contract obligations.
- (7) In May 1997, we completed the sale of 3,450,000 shares of our common stock in an underwritten offering, resulting in net proceeds of approximately \$101 million. A portion of these proceeds was used to repay the \$50 million outstanding balance under the Company's existing bank revolving credit facility.

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

In addition to historical information, this report 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 and Section 21E of the Securities 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, gross margins, operating expenses, cost savings expected from the transfer of our automatic ball bonder manufacturing to Singapore and benefits expected as a result of:

- o the projected growth rates in the overall semiconductor industry, the semiconductor assembly equipment market and the market for semiconductor packaging materials;
- o the anticipated development, production and licensing of our advanced packaging technology;
- o the projected continuing demand for wire bonders; and
- o the anticipated growing importance of the flip chip assembly process in high-end market segments.

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

Forward-looking statements are based on current expectations and involve risks and uncertainties and our future results could differ significantly from those expressed or implied by our forward-looking statements. These risks and uncertainties include, without limitation, those described under Item 1. Business and Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations of this report.

OVERVIEW

We design, manufacture and market capital equipment and packaging materials for sale to companies that manufacture and assemble semiconductor devices. We also service, maintain, repair and upgrade assembly equipment. Today, we are the world's largest supplier of semiconductor assembly equipment, according to VLSI Research Inc. We sell our products to semiconductor device manufacturers and contract manufacturers, which are primarily located in or have operations in the Asia/Pacific region. Sales to customers outside of the United States accounted for 83% of net sales for fiscal 1999 and are expected to continue to represent a substantial portion of our future revenues. To support our international sales, we currently have major manufacturing operations in the United States, Israel and Singapore, sales facilities in Hong Kong, Japan, Korea, Taiwan, Malaysia, the Philippines and Singapore, a technology center in Japan and applications labs in Singapore. We also maintain customer resource centers in Taiwan, the Philippines and Singapore.

Our business is divided into the following three segments:

Equipment

Through our equipment business we design, manufacture and market semiconductor assembly equipment. Our principal product line is our family of wire bonders, which are used to connect extremely fine wires, typically made of gold or aluminum, between the bonding pads on the die and the leads on the IC package to which the die has been bonded. We are the world's largest manufacturer of wire bonders, according to VLSI. In fiscal 1999, we successfully introduced the Model 8028 automatic ball bonder which, by the fourth quarter, accounted for the majority of ball bonders we sold due to its superior technical performance and productivity.

Earlier in 1999, we announced plans to relocate our automatic ball bonder manufacturing from the United States to Singapore. We expect the new manufacturing operation in Singapore to be fully operational in late fiscal 2000. Automatic ball bonders are our primary product and accounted for 48.0% of our total sales in fiscal 1999. We anticipate cost savings as a result of this move from reductions in the cost of shipping, labor and production materials. In addition, we expect to receive favorable tax treatment from Singapore in connection with the move. We incurred start up costs associated with the move of \$1.6 million in fiscal 1999 and expect additional start up costs in the first half of fiscal 2000 of approximately \$6.8 million.

Packaging Materials

Through our packaging materials business we design, manufacture and market a range of packaging materials to semiconductor device assemblers including very fine (typically 0.001 inches in diameter) gold, aluminum and copper wire, capillaries, wedges, die collets and saw blades. We expect to expand this business in an effort to increase our revenues from materials used in the assembly of ICs.

Advanced Packaging Technology

We established this business segment in fiscal 1999 to reflect the operating results of our strategic initiative to develop new technologies for advanced semiconductor packaging. This new business unit is comprised of Flip Chip Technologies, LLC, a joint venture with Delco Electronics Corporation, and our X-LAM business unit.

Through Flip Chip Technologies we license our flip chip technology and provide wafer bumping services. On May 31, 1999, we increased our ownership interest in Flip Chip Technologies from 51.0% to 73.6% by converting all of our outstanding loans and accrued interest, which totaled \$32.8 million, into equity units. We accounted for the increase in ownership by the purchase method of accounting and began consolidating the results of Flip Chip Technologies into our financial statements on June 1, 1999. For the first eight months of fiscal 1999, we recognized 100% of Flip Chip Technologies' pre-tax loss and did not recognize interest income on loans to Flip Chip Technologies due to the existence of these loans and uncertainties about Flip Chip Technologies' ability to obtain additional financing from Delco and its ability to generate short-term positive cash flow. The pre-tax loss of Flip Chip Technologies for fiscal 1999 was \$14.6 million compared to \$17.1 million in fiscal 1998. Our share of the Flip Chip Technologies pre-tax loss, reflected in our financial statements, was \$12.2 million in fiscal 1999 and \$8.7 million in fiscal 1998. The \$12.2 million pre-tax loss in fiscal 1999 consists of \$3.0 million of losses for the four months after we began reporting Flip Chip Technologies on a consolidated basis (after giving effect to Delco's minority interest and the elimination of inter-company interest), and a loss of \$9.2 million for the eight months when Flip Chip Technologies was accounted for by the equity method of accounting and reflected in Equity in Loss of Joint Ventures.

We established our X-LAM business unit to develop, manufacture and market high density interconnect substrates using either flip chip or advanced wire bonding interconnection schemes. We purchased the X-LAM technology for \$8.0 million in the second quarter of fiscal 1999, have leased a research/manufacturing facility and are building a staff to fully develop and market the technology. In fiscal 1999, we recorded an operating loss for the X-LAM business of \$3.0 million and a charge for the writeoff of in-process research and development of \$3.9 million.

Neither Flip Chip Technologies nor X-LAM has been profitable to date. With a full year of X-LAM operations in fiscal 2000 and our anticipated increased selling, general and administrative expenses and development spending, we expect losses at X-LAM to increase in fiscal 2000. We do not expect our X-LAM operations to generate any sales until fiscal 2001.

The following table sets forth the percentage of our net sales from each business segment for the past three years:

SEGMENT	FISCAL YEAR ENDED		
	SEPTEMBER 30,		
	1999	1998	1997
Equipment	68%	73%	78%
Packaging Materials	31	27	22
Advanced Packaging Technology	1	--	--
Total	100%	100%	100%

Net sales. We recognize net sales upon the shipment of products or performance of services.

Our equipment sales depend on the capital expenditures of semiconductor manufacturers and subcontract assemblers worldwide which, in turn, depend on the current and anticipated market demand for semiconductors and products using semiconductors. The semiconductor industry historically has been highly volatile and has experienced periodic downturns and slowdowns which have had a severe negative effect on the semiconductor industry's demand for capital equipment. These downturns and slowdowns, coupled with the effect of the Asian

economic crisis, adversely affected our sales during the latter half of fiscal 1998 and the first half of fiscal 1999. However, the semiconductor business cycle appears to have turned up, as evidenced by our sales results in the fourth quarter of fiscal 1999.

Our packaging materials sales depend on the same semiconductor manufacturers and subcontract assemblers as our equipment sales. However, the volatility in demand for our packaging materials is less than that of our equipment sales due to the consumable nature of the packaging materials. We expect to expand this portion of our business to help offset the volatility of the equipment segment, and because the worldwide market for consumable packaging materials is larger than the market for our semiconductor assembly equipment.

Our advanced packaging technology sales represent the sales from Flip Chip Technologies for the four months that we reported the results of Flip Chip Technologies on a consolidated basis. We will report Flip Chip Technologies' sales on a consolidated basis in all twelve months of fiscal 2000. Therefore, we expect our advanced packaging technology sales to be higher than in fiscal 1999.

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

Packaging materials cost of goods sold consists primarily of gold, aluminum, direct labor and other materials used in the manufacture of bonding wire, capillaries, wedges and other company products, with gold making up the majority of the cost. Gold bonding wire is generally priced based on a fabrication charge per 1,000 feet of wire, plus the value of the gold. To minimize our exposure to gold price fluctuations, we obtain gold for fabrication under a contract with our gold supplier and only purchase the gold when we ship and sell the finished product to the customer. Accordingly, fluctuations in the price of gold are generally absorbed by our gold supplier or passed on to our customers. Since gold makes up a significant portion of the cost of goods sold by the packaging materials segment, the gross profit margins will be lower than can be expected in the equipment business.

Cost of goods sold in our Advanced Packaging Technology segment is currently comprised of material, labor and overhead at Flip Chip Technologies. Our X-LAM operations will not report cost of goods sold until they begin to generate revenues, which is expected to occur in fiscal 2001.

Selling, general and administrative expense. Our selling, general and administrative expense is comprised primarily of personnel costs, professional costs, management information systems, facility and depreciation expenses. We expect our selling, general and administrative expenses to increase in fiscal 2000 as we build the staff in the X-LAM operation, report the results of Flip Chip Technologies on a consolidated basis for a full year and incur additional start up costs in Singapore.

Research and development expense. Our research and development costs consist primarily of labor, prototype material and other costs associated with our developmental efforts to strengthen our product lines and develop new products. Our research and development costs decreased in fiscal 1999 due to the reduction of our workforce in response to the market downturn. We expect our research and development costs to increase in fiscal 2000 as the semiconductor business cycle improves, we devote a full year to building the X-LAM operation and we report the results of Flip Chip Technologies on a consolidated basis for a full year.

RESULTS OF OPERATIONS

The table below shows principal line items from our historical consolidated statements of operations, as a percentage of our net sales, for the three years ended September 30, 1999:

	FISCAL YEAR ENDED SEPTEMBER 30,		
	1999	1998	1997
Net sales	100.0%	100.0%	100.0%
Costs of goods sold	71.5	66.7	63.3
Gross margin	28.5	33.3	36.7
Selling general and administrative	21.6	20.4	16.0
Research and development, net	9.3	11.9	9.2
Resizing costs	1.5	2.0	--
Purchased in-process research and development	1.0	--	--
Income (loss) from operations	(4.9)%	(1.0)%	11.5%

During the 1999 fiscal year ended September 30, 1999, we recorded bookings of \$438.0 million compared to \$347.0 million during fiscal 1998. The \$91.0 million increase in fiscal 1999 bookings occurred in the second half of fiscal 1999 and primarily reflected a significant improvement in demand for semiconductor assembly equipment. At September 30, 1999, total backlog of customer orders approximated \$93.0 million compared to \$54.0 million at September 30, 1998. Since the timing of deliveries may vary and orders are generally subject to cancellation, our backlog as of any date may not be indicative of net sales for any succeeding period.

Net sales for the 1999 fiscal year decreased by \$12.1 million to \$398.9 million from \$411.0 million in fiscal 1998. During the first half of fiscal 1999, net sales totaled \$134.7 million, or \$108.5 million lower than the same six month period of fiscal 1998, reflecting the impact of the slowdown in the semiconductor industry which started in 1998. However, as the semiconductor business cycle turned up in the second half of fiscal 1999, net sales increased over the prior year in the third and fourth quarters by 20.8% and 101.3%, respectively. Net sales in our equipment segment decreased by \$32.3 million to \$269.9 million in fiscal 1999 compared to \$302.1 million in fiscal 1998. The lower equipment segment sales were primarily due to significantly reduced demand for wedge bonders. We sold 117 wedge bonders in fiscal 1999, a 71% or \$48.1 million decline from the fiscal 1998 level. This was partially offset by higher automatic ball bonder sales (approximately 2,000 machines sold in fiscal 1999 versus approximately 1,800 machines sold in fiscal 1998). The increase in ball bonder sales primarily occurred in the second half of fiscal 1999, reflecting the increased industry demand for semiconductor assembly equipment as well as the introduction of the new Model 8028 ball bonder. The lower equipment segment sales in fiscal 1999 also reflect reduced average selling prices for our Model 1488 and Model 8020 ball bonders partially offset by improved pricing for the Model 8028. Packaging materials segment net sales increased \$15.6 million to \$124.5 million in fiscal 1999 from \$108.9 million in fiscal 1998. The higher packaging material segment net sales were due primarily to a higher volume of gold wire and capillary shipments during the second half of fiscal 1999. Net sales of our new advanced packaging technology segment reflect the sales of Flip Chip Technologies for the four months ended September 30, 1999.

International sales (shipments of our products with ultimate foreign destinations) comprised 83% and 80% of our total sales during fiscal 1999 and 1998, respectively. Sales to customers in the Asia/Pacific region, including Korea, Taiwan, Malaysia, the Philippines, Japan, Singapore, Thailand and Hong Kong, accounted for approximately 74% and 73% of our total sales in fiscal 1999 and 1998, respectively. During fiscal 1999, shipments to customers located in Taiwan, Singapore, the Philippines and Malaysia accounted for approximately 23%, 11%, 11% and 10% of net sales, compared to 20%, 5%, 17% and 16%, respectively, for the 1998 fiscal year.

Gross profit decreased to \$113.5 million for fiscal 1999 from \$136.8 million in fiscal 1998 due primarily to the lower volume of equipment segment sales in fiscal 1999. Gross profit margin decreased to 28.5% in fiscal 1999 from 33.3% in fiscal 1998, due to lower gross profit margin in the equipment segment partially offset by higher gross profit margin in the packaging materials segment. The gross profit margin in fiscal 1999 was also negatively impacted by a \$1.5 million negative gross profit recorded by our newly created advanced packaging technology segment. The equipment segment gross profit margin decreased to 30.0% in fiscal 1999 from 36.5% in fiscal 1998 due primarily to the lower average selling price for the segment's Model 1488 and 8020 ball bonders due to pricing competition and higher manufacturing costs associated with the Model 8020 and a sharp decline in sales of our higher margin wedge bonder. The packaging materials segment gross profit margin increased to 27.4% in fiscal 1999 from 24.5% in fiscal 1998 due primarily to operating efficiencies resulting from the impact of cost improvement programs implemented in fiscal 1998, the favorable impact of higher unit volumes of materials and higher margins on fine pitch products.

Selling, general and administrative expenses increased to \$86.2 million in fiscal 1999 from \$83.9 million in fiscal 1998. The \$2.3 million increase was due to \$3.8 million of expenses associated with our new advanced packaging technology business units and \$1.6 million of start up expenses for our new Singapore manufacturing facility, partially offset by lower selling, general and administrative expenses in our equipment segment. The lower selling, general and administrative expenses in our equipment segment were due to lower payroll and related costs resulting from our resizing efforts to reduce our workforce in late fiscal 1998 and early fiscal 1999.

Research and development costs decreased to \$37.2 million in fiscal 1999 from \$48.7 million in the prior fiscal

year. Our lower research and development expense was due to lower payroll and related costs resulting from our efforts to reduce our workforce in late fiscal 1998 and early fiscal 1999. We focused our research and development efforts on new product introductions (e.g., the Model 8028 ball bonder) and new product development. Gross research and development expenditures were partially offset by funding received from customers and governmental subsidies totaling \$1.3 million in fiscal 1999 compared to \$1.7 million in fiscal 1998.

We recorded resizing costs of \$5.9 million in fiscal 1999 reflecting provisions for severance and asset write-off costs resulting from the announced move of our automatic ball bonder manufacturing to Singapore and additional severance in connection with the reduction in our workforce. At September 30, 1999, we had accrued liabilities of \$4.0 million in connection with these severance costs, the majority of which will be paid in fiscal 2000. We also recorded resizing costs of \$8.4 million in fiscal 1998 for severance, asset write-offs and other costs in response to the industry-wide slowdown in orders for semiconductor assembly equipment and to a lesser extent semiconductor packaging materials.

In January 1999, we purchased the X-LAM technology and fixed assets used in the design, development and manufacture of laminate substrates for \$8.0 million. In fiscal 1999, we recorded a charge of approximately \$3.9 million for in-process research and development representing the appraised value of products still in the development stage that had not reached technological feasibility and an operating loss of \$3.0 million.

Loss from operations in fiscal 1999 was \$19.7 million compared to a loss of \$4.2 million in fiscal 1998. The unfavorable variance in fiscal 1999 was due primarily to an operating loss at our equipment business of \$11.3 million compared to operating income of \$3.1 million in the prior year and a loss at our new advanced packaging technology business of \$6.8 million. The operating loss in our equipment business was due to lower net sales and gross profit margin and one-time charges for the move to Singapore and workforce reductions. The operating losses in our equipment and advanced packaging technology businesses were partially offset by an increase of \$8.5 million in operating income in the packaging materials business. Additionally, as described previously, we recorded a \$3.9 million write-off of in-process research and development relating to the acquisition of the X-LAM technology.

Interest income, net of interest expense, decreased by \$2.0 million in fiscal 1999 compared to fiscal 1998, primarily due to lower short-term investments resulting from the use of cash throughout fiscal 1999 to fund the net loss, working capital, capital expenditures and investments in new business initiatives. See "Liquidity and Capital Resources."

Equity in Loss of Joint Ventures increased from \$8.7 million in fiscal 1998 to \$10.0 million in fiscal 1999. Our share of the pre-tax loss in Flip Chip Technologies for the eight months ended May 31, 1999 was \$9.2 million versus \$8.7 million for all of 1998. In fiscal 1999 we recognized 100% of the loss at Flip Chip Technologies for the eight months ended May 31, 1999 compared to recognizing only 51.0% of the Flip Chip Technologies loss in fiscal 1998, for reasons previously discussed. During fiscal 1999, we also recognized a \$0.8 million loss from our 50% equity interest in Advanced Polymer Solutions, LLC, a joint venture established in fiscal 1999 to develop, manufacture and market advanced polymer materials for semiconductor and microelectronic packaging end users.

We recorded a tax benefit of \$8.2 million in fiscal 1999. The effective tax rate of this benefit was 33%. We increased our valuation allowance on foreign tax credit carryforwards, and continue to maintain a valuation allowance for deferred tax assets related to the acquired domestic American Fine Wire net operating loss and net operating loss carryforwards of our Japanese subsidiary, because we cannot reasonably forecast sufficient future earnings by these subsidiaries to fully utilize the net operating losses during the carryforward period. If we realize the benefits of the American Fine Wire acquired net operating loss carryforward, the benefits would reduce the recorded amount of American Fine Wire goodwill. We believe that all of the net operating loss benefits generated during the year will be realized in the foreseeable future.

We recorded a minority interest in the net loss of Flip Chip Technologies of \$1.0 million. The minority interest reflects the portion (26.4%) of Flip Chip Technologies that is owned by Delco, our joint venture partner.

Our net loss for fiscal 1999 was \$16.9 million compared to a net loss of \$5.4 million in fiscal 1998, for the reasons enumerated above.

FISCAL YEARS ENDED SEPTEMBER 30, 1998 AND SEPTEMBER 30, 1997

During the 1998 fiscal year ended September 30, 1998, we recorded bookings totaling \$347.0 million compared to \$550.0 million during fiscal 1997. The \$203.0 million decrease in fiscal 1998 bookings primarily reflected an industry-wide slowdown in orders for semiconductor assembly equipment. At September 30, 1998, total backlog of customer orders approximated \$54.0 million compared to \$118.0 million at September 30, 1997.

Net sales for the 1998 fiscal year decreased by \$90.9 million to \$411.0 million from \$501.9 million in fiscal 1997. The lower sales volume generally reflected the slowdown in the semiconductor industry, resulting in reduced demand for semiconductor assembly equipment and to a lesser extent packaging materials. The majority of the reduction in net sales was in our equipment segment where net sales decreased \$89.6 million to \$302.1 million in fiscal 1998 from \$391.7 million in fiscal 1997. Fewer unit sales of ball bonders (approximately 1,800 ball bonders were sold in fiscal 1998 compared to over 3,000 in fiscal 1997) were partially offset by higher unit sales of wedge bonders resulting in the lower equipment segment sales in fiscal 1998. Packaging materials segment net sales decreased \$1.3 million to \$108.9 million in fiscal 1998 from \$110.2 million in fiscal 1997. The lower packaging material segment net sales was due primarily to lower average selling prices of bonding wire as the result of lower prevailing gold prices in fiscal 1998 compared to fiscal 1997.

International sales (shipments of our products with ultimate foreign destinations) comprised 80% and 85% of our total sales during fiscal 1998 and 1997, respectively. Sales to customers in the Asia/Pacific region, including Korea, Taiwan, Malaysia, the Philippines, Japan, Singapore, Thailand and Hong Kong, accounted for approximately 73% and 76% of our total sales in fiscal 1998 and 1997, respectively. During fiscal 1998, shipments to customers located in Taiwan, the Philippines, Malaysia and Korea accounted for approximately 20%, 17%, 16% and 4% of net sales, compared to 22%, 8%, 13% and 19%, respectively, for the 1997 fiscal year. The most significant change in foreign destination sales occurred in Korea, where Korean based customers, which have historically accounted for a significant percentage of our sales, were adversely affected by the financial turmoil in that country and as a result, reduced their orders from us.

Gross profit decreased to \$136.8 million for fiscal 1998 from \$183.9 million in fiscal 1997 due primarily to the lower unit volume of equipment segment sales in fiscal 1998. Gross profit as a percentage of net sales decreased to 33.3% in fiscal 1998 compared to 36.6% in fiscal 1997, due to lower gross profit margin in the equipment segment partially offset by higher gross profit margin in the packaging materials segment. The equipment segment gross profit margin decreased to 36.5% in fiscal 1998 from 41.6% in fiscal 1997 due primarily to the lower unit volume, which resulted in the absorption of manufacturing overhead costs by fewer units. Our packaging materials segment gross profit margin increased to 24.5% in fiscal 1998 compared to 19.1% in fiscal 1997 due primarily to improved manufacturing efficiencies at our bonding wire and saw blade facilities.

Selling, general and administrative expenses increased to \$83.9 million in fiscal 1998 from \$80.2 million in fiscal 1997. This increase of \$3.7 million consisted of approximately \$3.1 million related to the equipment segment, \$0.4 million related to the packaging materials segment and \$0.2 million of incremental corporate costs. The increase in the equipment segment selling, general and administrative expenses was due primarily to increased selling, marketing and customer support costs associated with the launch of our new Model 8020 and 8060 wire bonders and increased spending in connection with the 1999 implementation of our new Enterprise Resource Planning System, which replaced the segment's business and accounting systems. The slight increase in the packaging materials selling, general and administrative expenses costs in fiscal 1998 was due to higher sales and distribution infrastructure costs.

Research and development costs increased to \$48.7 million in fiscal 1998 from \$46.0 million in the prior fiscal year. The majority of the research and development costs incurred were in the equipment segment and were due to increased internal labor, higher outside contract development costs and increased expenditures for prototype materials as we continued development of additional products in the 8000 family of wire bonders. We also continued to invest in new technologies, which may eventually lead to improved and alternative semiconductor assembly technologies. Gross research and development expenditures were partially offset by funding received from customers and governmental subsidies totaling \$1.7 million in fiscal 1998 compared to \$2.0 million in fiscal 1997.

We recorded resizing costs of \$8.4 million in the fourth quarter of fiscal 1998 reflecting our efforts to reduce our workforce and discontinue products in response to the industry-wide slowdown in orders for semiconductor assembly equipment and, to a lesser extent, semiconductor packaging materials. The resizing costs consisted of \$5.0 million of severance, \$2.8 million of asset writeoffs associated with discontinued products and \$0.6 million of

other liabilities associated with the resizing. At September 30, 1998, we had accrued liabilities of \$3.7 million in connection with the resizing charges, the majority of which were paid in fiscal 1999.

Loss from operations in fiscal 1998 was \$4.2 million compared to operating income of \$57.7 million in fiscal 1997. The unfavorable variance to fiscal 1997 was due primarily to lower unit sales volume and gross profit in our equipment segment and to resizing charges, both resulting from the slowdown in the semiconductor industry. Partially off setting the lower operating income in the equipment segment was a \$3.8 million improvement in operating income in our packaging materials segment, excluding resizing charges.

Interest income, net of interest expense, increased by \$4.7 million in fiscal 1998 compared to fiscal 1997, primarily due to the investment of net proceeds from our May 1997 public offering of common stock for a full year in fiscal 1998, compared to a partial year in fiscal 1997, and to the paydown of all outstanding bank debt with a portion of the proceeds of the public offering in May 1997.

During fiscal 1998, we recognized an \$8.7 million pre-tax loss from our 51% equity interest in Flip Chip Technologies compared to a pre-tax loss of \$6.7 million in fiscal 1997. The increase in the loss in fiscal 1998 resulted from delays in potential customers' evaluations of Flip Chip Technologies' manufacturing process and the generally soft business environment in the semiconductor industry, along with a ramp-up of Flip Chip Technologies' production facility.

We recorded a tax benefit of \$1.9 million in fiscal 1998. The effective tax rate of this benefit was 26%, resulting from U.S. pre-tax losses exceeding foreign pre-tax income that was taxed at lower rates.

Our net loss for fiscal 1998 was \$5.4 million compared to net income of \$38.3 million in fiscal 1997, for the reasons enumerated above.

QUARTERLY RESULTS OF OPERATIONS

The table below shows our quarterly net sales, gross profit and operating income (loss) by quarter for fiscal 1999 and 1998:

FISCAL 1999 -----	FIRST QUARTER -----	SECOND QUARTER -----	THIRD QUARTER -----	FOURTH QUARTER -----	TOTAL -----
Net sales	\$ 61,175	\$ 73,561	\$ 110,806	\$ 153,375	\$ 398,917
Gross profit	16,176	21,025	30,374	45,960	113,535
Income (loss) from operations	(10,282)	(17,087)	(776)	8,413	(19,732)
FISCAL 1998 -----	FIRST QUARTER -----	SECOND QUARTER -----	THIRD QUARTER -----	FOURTH QUARTER -----	TOTAL -----
Net sales	\$ 123,111	\$ 120,060	\$ 91,693	\$ 76,176	\$ 411,040
Gross profit	45,345	45,987	30,185	15,316	136,833
Income (loss) from operations	10,630	12,987	(3,202)	(24,571)	(4,156)

The effect of the semiconductor industry downturn on our operating results is reflected in the quarterly results throughout fiscal 1998 and the first half of fiscal 1999. The turnaround in the industry cycle is reflected in the second half of fiscal 1999.

EFFECT OF RECENT ACCOUNTING PRONOUNCEMENTS

In June 1998, Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133") was issued. SFAS 133 establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts (collectively referred to as derivatives) and for hedging activities. It requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. This Statement is effective for all fiscal quarters for financial statements for fiscal years commencing after June 15, 2000. We do not believe that the adoption of SFAS 133 will have a material impact on our financial statements.

LIQUIDITY AND CAPITAL RESOURCES

As of September 30, 1999, our cash, cash equivalents and investments totaled \$39.3 million compared to \$106.9 million at September 30, 1998. Additionally, we have a \$60.0 million bank revolving credit facility, which expires in March 2003. Borrowings are subject to our compliance with financial and other covenants set forth in the revolving credit documents. At September 30, 1999, we were in compliance with the covenants of the credit facility and had no cash borrowings outstanding under that facility, but had utilized \$1.0 million of availability under the credit facility to support letters of credit issued as security deposits for our new manufacturing facility in Singapore and our new X-LAM facility. The revolving credit facility provides for borrowings denominated in either U.S. dollars or foreign currencies. Borrowings in U.S. dollars bear interest either at a Base Rate (defined as the greater of the prime rate minus 1/4% or the federal funds rate plus 1/2%) or, at a LIBOR Rate (defined as LIBOR plus 0.4% to 0.8%, depending on our leverage ratio). Foreign currency borrowings bear interest at a LIBOR Rate, as defined above, applicable to the foreign currency.

On December 13, 1999, we issued \$150.0 million of convertible subordinated notes. On December 15, 1999 we issued an additional \$25.0 million of convertible subordinated notes in connection with the exercise of the initial purchasers' over-allotment option. The notes are general obligations of our company and subordinated to all senior debt. The notes bear interest at 4 3/4%, are convertible into our common stock at \$45.7993 per share and mature on December 15, 2006. There are no financial covenants associated with the notes and there are no restrictions on paying dividends, incurring additional debt or issuing or repurchasing our securities. Interest on the notes will be paid on June 15 and December 15 of each year beginning June 15, 2000. We may redeem the notes in whole or in part at any time after December 18, 2002 at prices ranging from 102.714% at December 19, 2002 to 100.0% at December 15, 2006.

Cash used in operating activities totaled \$37.9 million during fiscal 1999 compared to cash generated by operating activities of \$21.7 million during fiscal 1998 and \$42.0 million in fiscal 1997. The use of cash from operating activities was primarily the result of the net loss we recorded in fiscal 1999 and the increase in accounts receivable and inventory, partially offset by a significant increase in accounts payable, due to the ramp up in business in the fourth quarter.

At September 30, 1999, our working capital was \$167.1 million compared to \$182.2 million at September 30, 1998. Our lower working capital was due primarily to a \$67.6 million reduction in cash and short term investments and an increase in accounts payable, partially offset by higher accounts receivable and inventory. The higher non-cash working capital assets were the result of the ramp up in business in the fourth quarter of fiscal 1999.

During fiscal 1999, we invested approximately \$10.9 million in property and equipment, primarily for leasehold improvements and tooling for our new Singapore facility and our advanced packaging technology business, an increase in capacity for the packaging and materials business and an upgrade of our computer hardware and software systems in connection with the implementation of a new Enterprise Resource Planning System that became operational in fiscal 1999. We presently expect fiscal 2000 capital spending to more than double as we continue investing in the projects listed above.

During fiscal 1999, we loaned \$10.5 million to Flip Chip Technologies, then, as mentioned above, converted all outstanding loans and interest (including the \$10.5 million invested in fiscal 1999) into equity units of Flip Chip Technologies, thereby increasing our ownership interest in Flip Chip Technologies to 73.6% from 51.0%.

In September 1998, we entered into a joint venture agreement to develop, manufacture and market advanced polymer materials for semiconductor and microelectronic packaging end users. Through September 30, 1999, we have invested \$3.8 million in this joint venture and have committed to invest an additional \$2.2 million.

We purchased the X-LAM technology for \$8.0 million in the second quarter of fiscal 1999. Through September 30, 1999, we have invested an additional \$4.0 million for operational and capital expenditures, and we expect additional funding requirements will be necessary in future years.

The Israeli government has funded a portion of the research and development costs related to some of our products. We are contingently liable to repay this funding through royalties to the Israeli government. Royalty payments are due only after sale of the funded products, are computed at varying rates from 2% to 5% of the sales and are

limited to the amounts received from the Israeli government. At September 30, 1999, we estimate that contingent liabilities for royalties related to potential future product sales are less than \$3.0 million.

We believe that anticipated cash flows from operations, the proceeds from the sale of \$175.0 million of the 4 3/4% convertible subordinated notes described above, our working capital and amounts available under our revolving credit facilities will be sufficient to meet our liquidity and capital requirements for at least the next 12 months. However, we may seek, as required, equity or debt financing to provide capital for corporate purposes and/or to fund strategic business opportunities, including possible acquisitions, joint ventures, alliances or other business arrangements that could require substantial capital outlays. We cannot determine the timing and amount of these potential capital requirements at this time because they will depend on a number of factors, including demand for our products, semiconductor and semiconductor capital equipment industry conditions and competitive factors and the nature and size of strategic business opportunities that we may elect to pursue.

RISKS RELATED TO OUR BUSINESS

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. Although these fluctuations are partly due to the volatile nature of the semiconductor industry, they also reflect the impact of other factors, some of which are outside of our control.

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

- o the mix of products that we sell because, for example:
 - packaging materials generally have lower margins than assembly equipment,
 - some lines of equipment are more profitable than others, and
 - some sales arrangements have higher margins than others;
- o the volume and timing of orders for our products and any order postponements and cancellations by our customers;
- o adverse changes in our pricing, or that of our competitors;
- o higher than anticipated costs of development or production of new equipment models;
- o the availability and cost of key components for our products;
- o market acceptance of our new products and upgraded versions of our products;
- o our announcement of, or perception by others that we will introduce, new or upgraded products, which could delay customers from purchasing our products;
- o the timing of acquisitions; and
- o our competitors' introduction of new products.

Many of our expenses, such as research and development and selling, general and administrative expenses, do not vary directly with our net sales. As a result, a decline in our net sales would adversely affect our operating results. In addition, if we were to incur additional expenses in a quarter in which we did not experience comparable increased net sales, our operating results would decline. Factors that could cause our expenses to fluctuate from period to period include:

- o the timing and extent of our research and development efforts;
- o severance and other costs of relocating facilities or resizings in market downturns; and

- o inventory writeoffs due to obsolescence.

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

THE SEMICONDUCTOR INDUSTRY AS A WHOLE IS VOLATILE, AS ARE OUR FINANCIAL RESULTS

Our operating results are significantly affected by the capital expenditures of semiconductor manufacturers and assemblers worldwide. Expenditures by semiconductor manufacturers and assemblers depend on the current and anticipated market demand for semiconductors and products that use semiconductors, such as personal computers, telecommunications, consumer electronics and automotive goods. Any significant downturn in the market for semiconductor devices or in general economic conditions would likely reduce demand for our products and adversely affect our business, financial condition and operating results.

Historically, the semiconductor industry has been volatile with sharp periodic downturns and slowdowns. These downturns have been characterized by, among other things, diminished product demand, excess production capacity and accelerated erosion of selling prices. This has severely and negatively affected the industry's demand for capital equipment, including the assembly equipment that we manufacture and market and, to a lesser extent, the packaging materials that we sell. These downturns and slowdowns have adversely affected our operating results. In the 1998 downturn, for example, our net sales declined from approximately \$501.9 million in fiscal 1997 to \$411.0 million in fiscal 1998 and continued to decline in the first half of fiscal 1999. Downturns in the future could similarly adversely affect our business, financial condition and operating results.

WE ARE IN THE PROCESS OF TRANSFERRING OUR AUTOMATIC BALL BONDER MANUFACTURING TO SINGAPORE, WHICH COULD DISRUPT OUR ABILITY TO SUPPLY OUR CUSTOMERS AND MAY NOT RESULT IN THE COST SAVINGS WE ANTICIPATE

The proposed move of our automatic ball bonder manufacturing to Singapore will require us to relocate equipment, hire and train production, engineering and management personnel, qualify suppliers and develop a purchasing and delivery infrastructure. In addition, we expect to experience increased selling, general and administrative expenses in fiscal 2000 in connection with start up costs. We plan to source a significantly higher percentage of materials from suppliers in Singapore. To the extent we experience availability, reliability or quality problems as a result of this shift in supply source, our business would be adversely affected. In addition, we do not intend to move our research and development function from Willow Grove to the Singapore facility. If we are unable to accomplish the move efficiently and commence full production as scheduled, our ability to fill orders could be hurt, which could damage our relationships with customers. In addition, our ability to meet production requirements may be adversely affected by any problems associated with the start up of this facility. We also anticipate cost savings from the transfer of our automatic ball bonder manufacturing as a result of reduced costs of labor, shipping and materials. However, we cannot assure you that we will realize these savings.

OUR BUSINESS DEPENDS ON ATTRACTING AND RETAINING MANAGEMENT, MARKETING AND TECHNICAL EMPLOYEES WHO ARE IN GREAT DEMAND

As is the case with all technology companies, our future success depends on our ability to hire and retain qualified management, marketing and technical employees. Competition is intense in personnel recruiting in the semiconductor and semiconductor equipment industries, particularly with respect to some engineering disciplines. In particular, we have experienced periodic shortages of software engineers. If we are unable to continue to attract and retain the technical and managerial personnel we require, our business, financial condition and operating results could be adversely affected.

WE MAY NOT BE ABLE TO RAPIDLY DEVELOP AND MANUFACTURE NEW AND ENHANCED PRODUCTS REQUIRED TO MAINTAIN OR EXPAND OUR BUSINESS

We believe that our continued success will depend on our ability to continuously develop and manufacture or acquire new products and product enhancements on a timely and cost-effective basis. We also must introduce these products and product enhancements into the market in response to customers' demands for higher performance assembly equipment. Our competitors may develop enhancements to or future generations of competitive products that will offer superior performance, features and lower prices that may render our products noncompetitive. We may not be able to develop and introduce products incorporating new technologies in a timely manner or at a price that will satisfy future customers' needs or achieve market acceptance. For example, the introduction of the Model

8020 wire bonder in 1998 was less successful than we had hoped because of higher than anticipated design and production costs and lower than anticipated sales prices.

WE MAY NOT BE ABLE TO ACCURATELY FORECAST DEMAND FOR OUR PRODUCT LINES

We typically operate our business with a relatively short backlog and order supplies and otherwise plan production based on internal forecasts of demand. Due to these factors, we have in the past, and may again in the future, fail to accurately forecast demand, in terms of both volume and configuration for either our current or next-generation wire bonders. This has led to and may in the future lead to delays in product shipments or, alternatively, an increased risk of inventory obsolescence. For example, we inaccurately forecasted demand for the Model 8020 wire bonder in 1998 and consequently recorded writeoffs for excess inventory. Also, we underestimated the magnitude of the improvement in the semiconductor industry at the end of fiscal 1999 and the demand for the new Model 8028 ball bonder; as a result some customer shipments may be delayed in fiscal 2000.

If we fail to accurately forecast demand for our products, our business, financial condition and operating results could be materially and adversely affected.

ADVANCED PACKAGING TECHNOLOGIES OTHER THAN WIRE BONDING MAY RENDER SOME OF OUR PRODUCTS OBSOLETE AND OUR STRATEGY FOR PURSUING THESE OTHER TECHNOLOGIES MAY BE COSTLY AND INEFFECTIVE

Advanced packaging technologies have emerged that may improve device performance or reduce the size of an integrated circuit or IC package, as compared to traditional die and wire bonding. These technologies include flip chip, chip scale packaging and tape automated bonding. In general, these advanced technologies eliminate the need for wires to establish the electrical connection between a die and its package. For some assemblies, these advanced technologies have largely replaced wire bonding. However, today most ICs still employ die and wire bonding technology, and the possible extent, rate and timing of change is difficult, if not impossible, to predict. In fact, wire bonding has proved more durable than we originally anticipated, largely because of its reliability and cost. However, we cannot assure you that the semiconductor industry will not, in the future, shift a significant part of its volume into advanced packaging technologies, such as those discussed above. Presently, Intel, Motorola, IBM and Advanced Micro Devices, for example, have developed flip chip technologies for internal use, and a number of other companies are also increasing their investments in advanced packaging technologies. If a significant shift to advanced technologies were to occur, demand for our wire bonders and related packaging materials would diminish.

One component of our strategy is to develop the capacity to use advanced technologies to allow us to compete in those portions of the market that currently use these advanced technologies and to prepare for any eventual decline in the use of wire bonding technology. There are a number of risks associated with our strategy to diversify into new technologies:

- o The technologies that we have invested in represent only some of the advanced technologies that may one day supercede wire bonding;
- o Other companies are developing similar or alternative advanced technologies;
- o Wire bonding may continue as the dominant technology for longer than we anticipate;
- o The cost of developing advanced technologies may be significantly greater than we expect; and
- o We may not be able to develop the necessary technical, research, managerial and other related skills to develop, produce, market and support these advanced technologies.

As a result of these risks, we cannot assure you that any of our attempts to develop alternative technologies will be profitable or that we will be able to realize the benefits that we anticipate from them.

BECAUSE WE HAVE A SMALL NUMBER OF PRODUCTS, A DECLINE IN DEMAND FOR, OR THE PRICE OF, ANY OF OUR PRODUCTS COULD CAUSE OUR REVENUES TO DECLINE SIGNIFICANTLY

Historically, our wire bonders have comprised at least 55% of our net sales. If demand for, or pricing of, our wire bonders declines because our competitors introduce superior or lower cost systems, the semiconductor industry

changes or because of other occurrences beyond our control, our business, financial condition and operating results would be materially and adversely affected.

BECAUSE A SMALL NUMBER OF CUSTOMERS ACCOUNT FOR NEARLY ALL OUR SALES, OUR REVENUES COULD DECLINE IF WE LOSE ANY SIGNIFICANT CUSTOMER

The semiconductor manufacturing industry is highly concentrated, with a relatively small number of large semiconductor manufacturers and subcontract assemblers purchasing a substantial portion of semiconductor assembly equipment and packaging materials. Sales to our five largest customers accounted for approximately 45.2% of our fiscal 1997 net sales, 41.4% of our fiscal 1998 net sales and 31.7% of our fiscal 1999 net sales. In fiscal 1997, our sales to Anam accounted for 12.5% of our net sales, and sales to Intel accounted for 10.2% of our net sales. In fiscal 1998, sales to Intel accounted for 17.6% of our net sales. During fiscal 1999, no customer accounted for more than 10% of our net sales.

We expect that sales of our products to a limited number of customers will continue to account for a high percentage of our net sales for the foreseeable future. If we lose orders from a significant customer, or if a significant customer reduces its orders substantially, these losses or reductions will adversely affect our business, financial condition and operating results.

WE DEPEND ON A SMALL NUMBER OF SUPPLIERS FOR MATERIALS AND, IF OUR SUPPLIERS DO NOT DELIVER THEIR PRODUCTS TO US, WE MAY BE UNABLE TO DELIVER OUR PRODUCTS TO OUR CUSTOMERS

Our products are complex and require materials, components and subassemblies of an exceptionally high degree of reliability, accuracy and performance. We rely on subcontractors to manufacture many of the components and subassemblies for our products and we rely on sole source suppliers for some material components. Our reliance involves a number of significant risks, including:

- o loss of control over the manufacturing process;
- o changes in our manufacturing processes, dictated by changes in the market, that have delayed our shipments;
- o our inadvertent use of defective or contaminated materials;
- o the relatively small operations and limited manufacturing resources of some of our contractors and suppliers, which may limit their ability to manufacture and sell subassemblies, components or parts in the volumes we require and at quality levels and prices we can accept;
- o reliability and quality problems we experience with certain key subassemblies provided by single source suppliers; and
- o delays in the delivery of subassemblies, which, in turn, have caused delays in some of our shipments.

If we are unable to deliver products to our customers on time for these or any other reasons, or if we do not maintain acceptable product quality or reliability in the future, our business, financial condition and operating results would be materially and adversely affected.

WE ARE EXPANDING AND DIVERSIFYING OUR OPERATIONS, AND IF WE FAIL TO MANAGE OUR EXPANDING AND MORE DIVERSE OPERATIONS SUCCESSFULLY, OUR BUSINESS AND FINANCIAL RESULTS MAY BE MATERIALLY AND ADVERSELY AFFECTED

In recent years, we have broadened our product offerings to include significantly more packaging materials. Although our strategy is to diversify our products and services, we may not be able to develop, acquire, introduce or market new products in a timely or cost-effective manner and the market may not accept any new or improved products we develop, acquire, introduce or market.

Our diversification into new lines of business and our expansion through acquisitions and alliances has increased, and is expected to continue to increase, demand on our management, financial resources and information and internal control systems. Our success depends in significant part on our ability to manage and integrate

acquisitions, joint ventures and other alliances and to continue to implement, improve and expand our systems, procedures and controls. If we fail to do this at a pace consistent with the development of our business, our business, financial condition and operating results would be materially and adversely affected.

As we seek to expand our operations, we expect to encounter a number of risks, which will include:

- o risks associated with hiring additional management and other critical personnel;
- o risks associated with adding equipment and capacity; and
- o risks associated with increasing the scope, geographic diversity and complexity of our operations.

In addition, sales and servicing of packaging materials and advanced technologies require different organizational and managerial skills than sales of traditional wire bonding technology. We cannot assure you that we will be able to develop the necessary skills to successfully produce and market these different products.

WE SELL MOST OF OUR PRODUCTS TO CUSTOMERS LOCATED OUTSIDE OF THE U.S. AND WE HAVE SUBSTANTIAL MANUFACTURING OPERATIONS LOCATED OUTSIDE OF THE U.S., BOTH OF WHICH SUBJECT US TO RISKS FROM CHANGES IN TRADE REGULATIONS, CURRENCY FLUCTUATIONS, POLITICAL INSTABILITY AND WAR

Approximately 85% of our net sales for fiscal 1997, 80% of our net sales for fiscal 1998 and 83% of our net sales for fiscal 1999 were attributable to sales to customers for delivery outside of the United States. We expect our sales outside of the United States to continue to represent a substantial portion of our future revenues. Our future performance will depend, in significant part, on our ability to continue to compete in foreign markets, particularly in Asia. Asian economies have been highly volatile, resulting in significant fluctuation in local currencies, and political and economic instability. These conditions may continue or worsen, which could materially and adversely affect our business, financial condition and operating results. In addition, we rely on non-U.S. suppliers for materials and components used in the equipment that we sell. We also maintain substantial manufacturing operations in countries other than the United States, including operations in Israel and Singapore. As a result, a major portion of our business is subject to the risks associated with international commerce such as, risks of war and civil disturbances or other events that may limit or disrupt markets; expropriation of our foreign assets; longer payment cycles in foreign markets; international exchange restrictions; the difficulties of staffing and managing dispersed international operations; tariff and currency fluctuations; changing political conditions; foreign governments' monetary policies; and less protective foreign intellectual property laws.

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

The ability of our international operations to prosper also will depend, in part, on a continuation of current trade relations between the United States and foreign countries in which our customers operate and in which our subcontractors have assembly operations. A change toward more protectionist trade legislation in either the United States or foreign countries in which we do business, such as a change in the current tariff structures, export compliance or other trade policies, could adversely affect our ability to sell our products in foreign markets.

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 agreements) in our agreements with employees, vendors, consultants and customers and on the common law of trade secrets and proprietary "know-how." We secondarily rely, in some cases, on patent and copyright protection, which may become more important to us as we expand our investment in advanced packaging technologies. We may not be successful in protecting our technology for a number of reasons, including:

- o Our competitors may independently develop technology that is similar to or better than ours;

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

In addition, our partners in joint ventures and alliances may also have rights to technology we develop through those joint ventures and alliances. If we are unable to protect our technology, we could weaken our competitive position or face significant expense to protect or enforce our intellectual property rights.

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. As a result, industry participants often develop products and features similar to those introduced by others, increasing the 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 infringe 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 our products or processes to avoid infringing the rights of others may be costly or impractical.

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

Some of our customers have received notices of infringement from the Lemelson Medical, Education and Research Foundation Limited Partnership (the "Lemelson Foundation"), alleging that equipment we have supplied to our customers, and processes this equipment performs, infringes on patents held by the Lemelson Foundation. These notices increased substantially in 1998, the year in which the Lemelson Foundation settled its suit against the Ford Motor Company, and entered into license agreements with Ford, GM and Chrysler. Since the settlement, a number of our customers, including Intel, have been sued by the Lemelson Foundation.

Some of our customers have requested that we defend and indemnify them against the Lemelson Foundation's claims or contribute to any settlement the customer reaches with the Lemelson Foundation. We have received opinions from our outside patent counsel with respect to various Lemelson Foundation patents. We are not aware that any equipment we market or that any process performed by our equipment infringes on the Lemelson Foundation patents and we do not believe that the Lemelson Foundation matter or any other pending intellectual property claim against us will materially and adversely affect our business, financial condition or operating results. The ultimate outcome of any infringement or misappropriation claim affecting us is uncertain, however, and we cannot assure you that our resolution of this litigation will not materially and adversely affect our business, financial condition and operating results.

OTHER RISKS

YEAR 2000

If our products or our internal data management, accounting, manufacturing or operating software and systems do not adequately or accurately process or manage day or date information beyond the year 1999, our operations could be affected adversely. To address the issue, we created an internal task force to assess our state of readiness for possible "Year 2000" issues and to take the necessary actions to ensure our Year 2000 compliance. The taskforce has evaluated and continues to evaluate:

- o our products and our internal business systems and software; and
- o our vulnerability to possible Year 2000 exposure due to suppliers' and other third parties' lack of preparedness for the year 2000.

To evaluate equipment that we sell and equipment, tools or software that we use, we employed Year 2000 Readiness Test scenarios established by SEMATECH, an industry group comprised of U.S. semiconductor manufacturers. Based on this assessment, we do not believe the operation of the equipment that we sell or the equipment, tools and software that we use will be affected by the transition to the year 2000. We completed our review, material corrective measures and contingency planning in September 1999.

In connection with our review and corrective measures, we replaced the business and accounting systems of our U.S. and Israeli equipment manufacturing sites with a new Enterprise Resource Planning System that was represented to us to be Year 2000 compliant. We spent approximately \$9.8 million in hardware, software, consulting costs and internal expenses to implement this new system.

In addition, we have been in contact with our suppliers and other third parties to determine the extent to which they may be vulnerable to Year 2000 issues. We have received representations as to the Year 2000 compliance of our major suppliers.

We believe that the reasonably anticipated worst case scenario for our business resulting from Year 2000 problems would be unexpected delays of supplier deliveries and customer shipments. If these delays are significant, customers may cancel orders and long-term customer relationships could be damaged. We believe that we have developed appropriate contingency plans for any Year 2000 delays, including carrying larger inventory of products from a small number of suppliers that we believe may be vulnerable to year 2000 disruptions.

ANTI-TAKEOVER PROVISIONS IN OUR ARTICLES OF INCORPORATION AND BYLAWS AND PENNSYLVANIA LAW MAY DISCOURAGE OTHER COMPANIES FROM ATTEMPTING TO ACQUIRE US

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

- o classify our Board of Directors into four classes, with one class being elected each year;
- o permit our Board to issue "blank check" preferred stock without shareholder approval; and
- o 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 bylaws provide for a classified Board of Directors, shareholders may only remove directors for cause. These provisions and some provisions of the Pennsylvania Business Corporation Law could delay, defer or prevent us from experiencing a change in control and may adversely affect our common stockholders' voting and other rights.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

At September 30, 1999, we had a non-trading investment portfolio of fixed income securities, excluding those classified as cash and cash equivalents, of \$2.1 million (see Note 5 of the Company's Consolidated Financial Statements). At September 30, 1999, we also were obligated, under a foreign exchange contract, to purchase 1.6 million Swiss Francs in March 2000 for \$1.079 million. These securities, like all fixed income instruments, are subject to interest rate and exchange rate risk and may fall in value if market rates change. If market interest rates were to increase immediately and uniformly by 100 basis points and we experienced an adverse move in the Swiss currency rate of 10% there would be no material or adverse affect on our business, financial condition or operating results.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

The consolidated Financial Statements of Kulicke and Soffa Industries, Inc. and its subsidiaries and Flip Chip Technologies, LLC, listed in the index appearing under Item 14 (a) (1) (a) and (b) herein are filed as part of this Report.

REPORT OF INDEPENDENT ACCOUNTANTS

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

In our opinion, the consolidated financial statements listed in the index appearing under Item 14 (a) (1) (a) on page 65 of this Annual Report on Form 10-K present fairly, in all material respects, the financial position of Kulicke and Soffa Industries, Inc and its subsidiaries at September 30, 1999 and September 30, 1998, and the results of their operations and their cash flows for each of the three years in the period ended September 30, 1999, in conformity with accounting principles generally accepted in the United States. In addition, in our opinion, the financial statement schedule listed in the index appearing under Item 14 (a) (2) on page 65 presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and financial statement schedule are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

PricewaterhouseCoopers LLP

Philadelphia, Pennsylvania
December 6, 1999, except as to Note 15, which is as of December 15, 1999

KULICKE AND SOFFA INDUSTRIES, INC.
CONSOLIDATED BALANCE SHEET
(IN THOUSANDS)

	SEPTEMBER 30,	
	1999	1998
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents (including time deposits: 1999 - \$ 912; 1998 - \$2,166)	\$ 37,155	\$ 76,478
Short-term investments	2,190	30,422
Accounts and notes receivable (less allowance for doubtful accounts: 1999 - \$ 1,727; 1998 - \$1,677)	136,047	66,137
Inventories, net	61,782	47,573
Prepaid expenses and other current assets	9,906	5,303
Refundable income taxes	2,934	5,270
Deferred income taxes	11,071	2,608
	-----	-----
TOTAL CURRENT ASSETS	261,085	233,791
Property, plant and equipment, net	67,485	48,269
Intangible assets, primarily goodwill (net of amortization: 1999 - \$10,276; 1998 - \$7,391)	44,637	38,765
Investments in and loans to joint ventures	2,940	19,920
Other assets	1,998	1,839
	-----	-----
TOTAL ASSETS	\$ 378,145	\$ 342,584
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Notes payable and current portion of long-term debt	\$ 1,178	\$ 192
Accounts payable	61,962	24,223
Accrued expenses	27,210	23,549
Income taxes payable	3,604	3,646
	-----	-----
TOTAL CURRENT LIABILITIES	93,954	51,610
Other liabilities	4,373	3,064
Minority interest	5,042	--
	-----	-----
TOTAL LIABILITIES	103,369	54,674
	-----	-----
COMMITMENTS AND CONTINGENCIES (Note 13)	--	--
SHAREHOLDERS' EQUITY:		
Preferred stock, without par value:		
Authorized - 5,000 shares; issued - none	--	--
Common stock, without par value:		
Authorized - 100,000 shares; issued and outstanding: 1999 - 23,489; 1998 - 23,367	160,108	157,986
Retained earnings	117,018	133,964
Accumulated other comprehensive loss	(2,350)	(4,040)
	-----	-----
TOTAL SHAREHOLDERS' EQUITY	274,776	287,910
	-----	-----
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 378,145	\$ 342,584
	=====	=====

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

KULICKE AND SOFFA INDUSTRIES, INC.
CONSOLIDATED STATEMENT OF OPERATIONS
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	FISCAL YEAR ENDED SEPTEMBER 30,		
	1999	1998	1997
Net sales	\$ 398,917	\$ 411,040	\$ 501,907
Cost of goods sold	285,382	274,207	318,002
Gross profit	113,535	136,833	183,905
Selling, general and administrative	86,226	83,854	80,212
Research and development, net	37,188	48,715	46,030
Resizing costs	5,918	8,420	--
Purchased in-process research and development	3,935	--	--
Income (loss) from operations	(19,732)	(4,156)	57,663
Interest income	3,762	5,776	3,151
Interest expense	(215)	(262)	(2,331)
Equity in loss of joint ventures	(10,000)	(8,715)	(6,701)
Income (loss) before taxes	(26,185)	(7,357)	51,782
Provision (benefit) for income taxes	(8,221)	(1,917)	13,463
Income (loss) before minority interest	(17,964)	(5,440)	38,319
Minority interest in net loss of subsidiary	1,018	--	--
Net income (loss)	\$ (16,946)	\$ (5,440)	\$ 38,319
Net income (loss) per share:			
Basic	\$ (0.72)	\$ (0.23)	\$ 1.84
Diluted	\$ (0.72)	\$ (0.23)	\$ 1.79
Weighted average shares outstanding:			
Basic	23,423	23,301	20,871
Diluted	23,423	23,301	21,428

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

KULICKE AND SOFFA INDUSTRIES, INC.
CONSOLIDATED STATEMENT OF CASH FLOWS
(IN THOUSANDS)

	FISCAL YEAR ENDED SEPTEMBER 30,		
	1999	1998	1997
	-----	-----	-----
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income (loss)	\$ (16,946)	\$ (5,440)	\$ 38,319
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization	15,989	13,250	11,329
Provision for doubtful accounts	812	29	1,065
Provision for impairment of goodwill	--	948	--
Deferred taxes	(8,463)	(1,087)	244
Provision for inventory reserves	1,200	4,132	2,593
Equity in loss of joint ventures	10,000	8,715	6,701
Minority interest in net loss of subsidiary	(1,018)	--	--
Purchased in-process research and development	3,935	--	--
Loss on write off and disposal of property and equipment	1,566	1,484	--
Non-cash employee benefits	1,662	2,240	1,793
Changes in working capital accounts, net of effect of acquired businesses:			
Accounts receivable	(66,833)	38,937	(57,960)
Inventories	(14,700)	(6,103)	(3,201)
Prepaid expenses and other assets	(4,801)	(912)	(35)
Refundable income taxes	2,336	(5,270)	6,212
Accounts payable and accrued expenses	36,182	(24,568)	30,668
Taxes payable	138	(4,446)	3,527
Other, net	1,012	(185)	726
	-----	-----	-----
Net cash provided by (used in) operating activities	(37,929)	21,724	41,981
	-----	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of net assets of Semitec; net of cash acquired	--	--	(4,510)
Purchases of investments classified as available-for-sale	(29,379)	(108,482)	(4,451)
Proceeds from sales or maturities of investments classified as available-for-sale	57,454	86,199	9,967
Purchases of plant and equipment	(10,891)	(16,062)	(13,516)
Purchase of X-LAM technology	(8,000)	--	--
Proceeds from sale of property and equipment	--	436	--
Investments in and loans to joint ventures	(10,912)	(14,500)	(19,280)
	-----	-----	-----
Net cash used in investing activities	(1,728)	(52,409)	(31,790)
	-----	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:			
Payments on borrowings, including capitalized leases	(192)	(808)	(51,065)
Proceeds from issuances of common stock	280	385	103,112
	-----	-----	-----
Net cash provided by (used in) financing activities	88	(423)	52,047
	-----	-----	-----
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	246	(19)	23
	-----	-----	-----
CHANGE IN CASH AND CASH EQUIVALENTS	(39,323)	(31,127)	62,261
CASH AND CASH EQUIVALENTS AT:			
BEGINNING OF YEAR	76,478	107,605	45,344
	-----	-----	-----
END OF YEAR	\$ 37,155	\$ 76,478	\$ 107,605
	=====	=====	=====

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

KULICKE AND SOFFA INDUSTRIES, INC.
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
(IN THOUSANDS)

	COMMON STOCK		RETAINED EARNINGS	ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)	TOTAL SHAREHOLDERS' EQUITY
	SHARES	AMOUNT			
Balances at September 30, 1996	19,433	\$ 48,733	\$ 101,085	\$ (2,329)	\$ 147,489
Common stock sold	3,450	101,103	--	--	101,103
Employer contribution to the 401(k) plan	92	1,793	--	--	1,793
Exercise of stock options	262	2,009	--	--	2,009
Tax benefit from exercise of stock options	--	1,608	--	--	1,608
Components of comprehensive income:					
Net income	--	--	38,319	--	38,319
Translation adjustment	--	--	--	(394)	(394)
Total comprehensive income	-----	-----	-----	-----	----- 37,925
Balances at September 30, 1997	23,237	155,246	139,404	(2,723)	291,927
Employer contribution to the 401(k) plan	89	2,240	--	--	2,240
Exercise of stock options	41	385	--	--	385
Tax benefit from exercise of stock options	--	115	--	--	115
Components of comprehensive loss:					
Net loss	--	--	(5,440)	--	(5,440)
Translation adjustment	--	--	--	(1,433)	(1,433)
Unrealized gain on investments, net	--	--	--	116	116
Total comprehensive loss	-----	-----	-----	-----	----- (6,757)
Balances at September 30, 1998	23,367	157,986	133,964	(4,040)	287,910
EMPLOYER CONTRIBUTION TO THE 401(K) PLAN	84	1,662	--	--	1,662
EXERCISE OF STOCK OPTIONS	38	280	--	--	280
TAX BENEFIT FROM EXERCISE OF STOCK OPTIONS	--	180	--	--	180
COMPONENTS OF COMPREHENSIVE LOSS:					
NET LOSS	--	--	(16,946)	--	(16,946)
TRANSLATION ADJUSTMENT	--	--	--	2,622	2,622
UNREALIZED LOSS ON INVESTMENTS, NET	--	--	--	(115)	(115)
REALIZED GAIN ON INVESTMENTS INCLUDED IN NET LOSS, NET	--	--	--	(49)	(49)
MINIMUM PENSION LIABILITY (NET OF TAXES OF \$413)	--	--	--	(768)	(768)
TOTAL COMPREHENSIVE LOSS	-----	-----	-----	-----	----- (15,256)
BALANCES AT SEPTEMBER 30, 1999	23,489	\$ 160,108	\$ 117,018	\$ (2,350)	\$ 274,776

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

KULICKE AND SOFFA INDUSTRIES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Nature of Business - The Company manufactures capital equipment and packaging materials used in the assembly of semiconductors. The Company's operating results primarily depend upon the capital expenditures of semiconductor manufacturers and subcontract assemblers worldwide which, in turn, depend on the current and anticipated market demand for semiconductors and products utilizing semiconductors. The semiconductor industry historically has been highly volatile and experienced periodic downturns and slowdowns which have had a severe negative effect on the semiconductor industry's demand for semiconductor capital equipment, including assembly equipment manufactured and marketed by the Company and, to a lesser extent, packaging materials such as those sold by the Company. These downturns and slowdowns have also adversely affected the Company's operating results. The Company believes such volatility will continue to characterize the industry and the Company's operations in the future.

The semiconductor and semiconductor equipment industries are subject to rapid technological change and frequent new product introductions and enhancements. The Company invests substantial amounts in research and development to continuously develop and manufacture new products and product enhancements in response to demands for higher performance assembly equipment. In addition, the Company continuously pursues investments in alternative packaging technologies. The Company's inability to successfully develop new products and product enhancements or to effectively manage the introduction of new products into the marketplace could have a material adverse effect on the Company's results of operations, financial condition and liquidity.

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

Vulnerability to Certain Concentrations - Financial instruments which may subject the Company to concentration of credit risk at September 30, 1999 and 1998 consist primarily of investments and trade receivables. The Company manages credit risk associated with investments by investing its excess cash in investment grade debt instruments of the U.S. Government, financial institutions and corporations. The Company has established investment guidelines relative to diversification and maturities designed to maintain safety and liquidity. These guidelines are periodically reviewed and modified to take advantage of trends in yields and interest rates. The Company's trade receivables result primarily from the sale of semiconductor equipment, related accessories and replacement parts and packaging materials to a relatively small number of large manufacturers in a highly concentrated industry. The Company continually assesses the financial strength of its customers to reduce the risk of loss. Accounts receivable at September 30, 1999 and 1998 included notes receivable of \$10 and \$524 respectively. Write-offs of uncollectible accounts have historically been insignificant.

Sales to a relatively small number of customers account for a significant percentage of the Company's net sales. In fiscal 1999 no customer accounted for more than 10% of net sales but in fiscal 1998, sales to Intel accounted for 17.6% of the Company's net sales and in fiscal 1997, sales to Anam (a Korea-based customer) and Intel accounted for approximately 12.5% and 10.2%, respectively, of net sales. The Company expects sales of its products to a limited number of customers will continue to account for a high percentage of net sales for the foreseeable future. The reduction or loss of orders from a significant customer could adversely affect the Company's business, financial condition, operating results and cash flows.

The Company relies on subcontractors to manufacture to the Company's specifications many of the components or subassemblies used in its products. Certain of the Company's products require components or parts of an exceptionally high degree of reliability, accuracy and performance for which there are only a limited number of suppliers or for which a single supplier has been accepted by the Company as a qualified supplier. If supplies of such components or subassemblies were not available from any such source and a relationship with an alternative supplier could not be promptly developed, shipments of the Company's products could be interrupted and re-engineering of the affected product could be required. Such disruptions could have a material adverse effect on the Company's results of operations.

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

Investments - Investments, other than cash equivalents, are classified as "trading," "available-for-sale" or "held-to-maturity," depending upon the nature of the investment, its ultimate maturity date in the case of debt securities, and management's intentions with respect to holding the securities. Investments classified as "trading" are reported at fair market value, with unrealized gains or losses included in earnings. Investments classified as available-for-sale are reported at fair market value, with net unrealized gains or losses reflected as a separate component of shareholders' equity (accumulated other comprehensive income (loss)). Investments classified as held-to-maturity are reported at amortized cost. Realized gains and losses are determined on the basis of specific identification of the securities sold.

Inventories - Inventories are stated at the lower of cost (determined on the basis of first-in, first-out) or market. Due to the volatility of demand for capital equipment and the rapid technological change in the semiconductor industry, the Company is vulnerable to risks of excess and obsolete inventory. The Company generally provides reserves for inventory considered to be in excess of 18 months of forecasted future demand.

Property, Plant and Equipment - Property, plant and equipment are carried at cost. The cost of additions and those improvements which increase the capacity or lengthen the useful lives of assets are capitalized while repair and maintenance costs are expensed as incurred. Depreciation and amortization are provided on a straight-line basis over the estimated useful lives as follows: buildings 25 to 40 years; machinery and equipment 3 to 8 years; and leasehold improvements are based on the shorter of the life of lease or life of asset. Purchased computer software costs related to business and financial systems are amortized over a five year period on a straight-line basis. In accordance with SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," the carrying value of long-lived assets, including goodwill, is evaluated whenever changes in circumstances indicate the carrying amount of such assets may not be recoverable. In performing such review for recoverability, the Company compares the expected future cash flows to the carrying value of long-lived assets and identifiable intangibles. If the anticipated undiscounted future cash flows are less than the carrying amount of such assets, the Company recognizes an impairment loss for the difference between the carrying amount of the assets and their estimated fair value. If an asset being tested for recoverability was acquired in a business combination accounted for using the purchase method, the excess of cost over fair value of net assets that arose in that transaction is allocated to the assets being tested for recoverability on a pro rata basis using the relative fair values of the long-lived assets and identifiable intangibles acquired at the acquisition date.

Depreciation expense was \$13,104, \$10,896 and \$8,945 for the fiscal years ended September 30, 1999, 1998 and 1997, respectively. When assets are retired or otherwise disposed of, the assets and related accumulated depreciation accounts are adjusted accordingly, and any resulting gain or loss is recorded in current operations.

Intangible Assets - Goodwill resulting from acquisitions accounted for using the purchase method is amortized on a straight-line basis over the estimated period to be benefited by the acquisitions ranging from five to twenty years. The Company accounts for impairment of goodwill in accordance with SFAS No. 121, as discussed above. In connection with the Company's resizing efforts in fiscal 1998, the Company discontinued certain die bonder products which the Company had acquired in 1994, and recorded an impairment of goodwill of \$948.

Foreign Currency Translation - The U.S. dollar is the functional currency for all subsidiaries except the Company's subsidiaries in Japan, Korea, Singapore, Switzerland and Taiwan. Unrealized translation gains and losses resulting from the translation of functional currency financial statement amounts into U.S. dollars are not included in

determining net income but are accumulated in the cumulative translation adjustment account as a separate component of shareholders' equity (accumulated other comprehensive income (loss)), in accordance with SFAS No. 52. Cumulative translation adjustments are not adjusted for income taxes as they relate to indefinite investments in non-U.S. subsidiaries. Gains and losses resulting from foreign currency transactions are included in the determination of net income. Net exchange and transaction gains (losses) were \$13, (\$147) and (\$135), for the fiscal years ended September 30, 1999, 1998 and 1997, respectively.

Revenue Recognition - Sales are recorded upon shipment of products or performance of services. Provisions for estimated product returns, warranty and installation costs are accrued in the period of sale recognition.

Research and Development Arrangements - The Company receives funding from certain customers and government agencies pursuant to contracts or other arrangements for the performance of specified research and development activities. Such amounts are recognized as a reduction of research and development expense when specified activities have been performed. During fiscal 1999, 1998 and 1997, reductions to research and development expense related to such funding totaled \$1,269, \$1,655 and \$2,018, respectively.

Income Taxes - Deferred income taxes are determined using the liability method in accordance with SFAS No. 109, "Accounting for Income Taxes." No provision is made for U.S. income taxes on the portion of undistributed earnings of foreign subsidiaries which are indefinitely reinvested in foreign operations.

Environmental Expenditures - Future environmental remedial expenditures are recorded in operating expenses when it is probable that a liability has been incurred and the amount of the liability can be reasonably estimated. Accrued liabilities do not include claims against third parties and are not discounted.

Earnings Per Share - In the fiscal 1998 first quarter ended December 31, 1997, the Company adopted Statement of Financial Accounting Standards No. 128, "Earnings Per Share," ("SFAS 128"). Under SFAS 128, basic earnings per share includes only the weighted average number of common shares outstanding during the period. Diluted earnings per share includes the weighted average number of common shares and the dilutive effect of stock options and other potentially dilutive securities outstanding during the period. All prior period earnings per share amounts have been restated to reflect the requirements of SFAS 128. See Note 12.

Accounting for Stock-based Compensation - In 1995, Statement of Financial Accounting Standards No. 123 - "Accounting for Stock-Based Compensation" ("SFAS 123") was issued. SFAS 123 defines the "fair value method" of accounting for stock options or similar equity instruments, pursuant to which compensation cost is measured at the grant date based on the value of the award and is recognized over the service period. SFAS 123 permits companies to continue to account 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 disclose the pro forma effect on net income and earnings per share as if the fair value method had been applied to stock option grants. The Company has elected to follow the disclosure basis only, as permitted by SFAS 123.

Reporting Comprehensive Income - In fiscal 1999, the Company adopted Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income" ("SFAS 130"), which establishes standards for reporting and display of comprehensive income and its components (revenues, expenses, gains and losses) in a full set of general purpose financial statements. The comprehensive income and related cumulative equity impact of comprehensive income items are required to be reported in a financial statement that is displayed with the same prominence as other financial statements. The impact of foreign currency translation adjustments, minimum pension liability adjustments and unrealized gains or losses on securities available for sale are considered to be components of the Company's comprehensive income under the requirements of SFAS 130.

Segment Disclosure - In fiscal 1998, the Company adopted Statement of Financial Accounting Standards No. 131, "Disclosures about Segments of an Enterprise and Related Information" ("SFAS 131"). SFAS 131 supersedes SFAS 14, Financial Reporting for Segments of a Business Enterprise, replacing the "industry segment" approach with the "management" approach. The management approach designates the internal organization that is used by management for making operating decisions and assessing performance as the source of the Company's reportable segments. SFAS 131 also requires disclosure about products and services, geographic areas, and major customers. The adoption of SFAS 131 did not affect results of operations or financial position but did affect the disclosure of

segment information (see "Segment Information" Note 11).

Derivative Instruments and Hedging Activities - In June 1998, Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133") was issued. SFAS 133 establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts (collectively referred to as derivatives) and for hedging activities. It requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. This Statement is effective for all fiscal quarters for financial statements for fiscal years commencing after June 15, 2000. Management does not believe that the adoption of SFAS 133 will have a material impact on the financial statements.

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

NOTE 2: RESIZING COSTS

During fiscal 1999, the Company announced plans to relocate its automatic ball bonder manufacturing from Willow Grove, Pennsylvania to Singapore. As a result, the Company recorded a charge for severance of \$3,955 for the elimination of approximately 230 positions and asset writeoffs of \$1,566. In fiscal 1999, the Company also recorded a charge of \$397 for severance for an additional 30 employees related to the reduction in workforce that began in fiscal 1998.

Write-downs of property, plant and equipment were made where carrying values exceeded the Company's estimate of proceeds from abandonment or disposal. These estimates were based principally on past experience of comparable asset disposals. Cash payments for severance and the disposition of assets identified are expected to be substantially paid or completed by the end of fiscal 2000.

During fiscal 1998, the Company announced plans to resize its workforce and discontinue products due to a slowdown in orders for its semiconductor assembly capital equipment and to a lesser extent for its semiconductor packaging materials. As a result of the resizing activities, the Company reduced its worldwide workforce by approximately 21% or 500 employees. The Company recorded a total resizing charge of \$8,420 in 1998 for severance (\$4,953), impairment of goodwill associated with the 1994 acquisition of certain assets from Assembly Technologies (\$948), product discontinuation costs (\$1,891; primarily write-off of fixed assets and excess inventory) and other costs (\$628).

Concurrent with the resizing charge in fiscal 1998 of \$8,420, the Company recorded in 1998 charges in its cost of goods sold of \$2,362 for excess and obsolete inventory and \$1,426 for excess purchase commitments resulting from the slowdown in orders for its semiconductor assembly equipment.

The balance of the severance and other resizing reserves is included within accrued liabilities. The components of these resizing reserves and movements within these components during 1999 were as follows:

	Severance -----	Other -----	Total -----
Balance at September 30, 1998	\$ 3,088	\$ 628	\$ 3,716
Provision in fiscal 1999	4,352	--	4,352
Payments made	(3,296)	(147)	(3,443)
	-----	-----	-----
Balance at September 30, 1999	\$ 4,144	\$ 481	\$ 4,625
	=====	=====	=====

The severance resizing reserve at September 30, 1999 is comprised of the elimination of approximately 230 positions associated with the move of the ball bonder manufacturing to Singapore and expensed in fiscal 1999 and 3 employees terminated in association with the fiscal 1998 reduction in workforce and expensed in fiscal 1998.

During fiscal 1999, payments of \$3,296 were made related to the termination of approximately 285 employees.

NOTE 3: INVESTMENTS IN JOINT VENTURES

In February 1996, the Company entered into a joint venture agreement with Delco Electronics Corporation ("Delco") providing for the formation and management of Flip Chip Technologies, LLC ("FCT"). FCT was formed to license related technologies and to provide wafer bumping services on a contract basis. The Company owned a 51.0% equity interest in FCT but participated equally with Delco in the management of FCT through an Executive Committee. Accordingly, the Company accounted for its investment in FCT using the equity method, and recognized its proportionate share of the operating results of the joint venture on the basis of its ownership interest through September 30, 1998. For the first eight months of fiscal 1999, the Company recognized 100% of the FCT pre-tax loss and did not recognize interest income on loans to FCT due to the existence of these loans and uncertainties about FCT's ability to obtain additional financing from Delco and its ability to generate short-term positive cash flow.

Effective May 31, 1999 the Company increased its ownership interest in FCT, from 51.0% to 73.6% by converting all of its outstanding loans and accrued interest to FCT, which totaled \$32,832, into equity units and gained operating control of FCT. The Company accounted for the increase in ownership by the purchase method of accounting and began consolidating the results of FCT into the Company's financial statements on June 1, 1999. The pre-tax loss of FCT for fiscal 1999 was \$14,583 compared to \$17,087 in fiscal 1998. The Company's share of the FCT pre-tax loss, reflected in its financial statements, was \$12,166 in fiscal 1999, \$8,715 in fiscal 1998 and \$6,701 in fiscal 1997. The \$12,166 pre-tax loss in fiscal 1999 consists of \$3,003 of losses for the four months after the Company began reporting FCT on a consolidated basis and a loss of \$9,163 for the eight months when FCT was accounted for by the equity method of accounting and reflected in Equity in Loss of Joint Ventures.

The Company recorded goodwill of \$5,205 associated with the increase in ownership of FCT and is amortizing the goodwill over 10 years. For income tax purposes, FCT is treated as a partnership, accordingly, no provision for income tax is included in FCT's separate financial statements. Rather, the Company's share of the results of FCT were reported on a pre-tax basis until May 31, 1999.

Through September 30, 1999, the Company had contributed \$49,662 to FCT.

Unaudited pro forma operating results of the Company, assuming the increase in ownership of FCT took place at the beginning of fiscal 1998, are as follows:

	FISCAL YEAR ENDED SEPTEMBER 30,	
	1999	1998
	----	----
	(UNAUDITED)	
Net sales	\$ 418,157	\$ 415,382
Net loss	(16,268)	(8,719)
Net loss per share - diluted	(0.69)	(0.37)

The pro forma operating results reflected above are not necessarily indicative of the future operating results of the Company.

Selected assets and liabilities of FCT, which are consolidated in the Company's balance sheet at September 30, 1999, are:

	SEPTEMBER 30, 1999

Cash	\$ 839
Current assets	3,711
Property, plant and equipment, net	20,844
Total assets	24,946
Current liabilities	5,873
Total liabilities	5,873

In September 1998, the Company entered into a joint venture agreement with Polyset Company, Inc. ("Polyset")

providing for the formation and management of Advanced Polymer Solutions, LLC ("APS") to develop, manufacture and market advanced polymer materials for semiconductor and microelectronic packaging end users. The Company owns a 50% equity interest in APS and participates equally with Polyset in the management of APS through an Executive Committee. Accordingly, the Company accounts for its investment in APS using the equity method, and recognizes its proportionate share of the operating results of the joint venture on the basis of its ownership interest. For income tax purposes, APS is treated as a partnership. Accordingly, no provision for income taxes is included in APS's separate financial statements. Rather, the Company's proportionate share of the results of APS are reported on a pre-tax basis. For the fiscal year ended September 30, 1999, the Company reported a pre-tax loss of \$837 on its investment in APS. Through September 30, 1999, the company had contributed approximately \$3,800 to APS and has committed to contribute up to \$6,000.

NOTE 4: PURCHASED IN-PROCESS RESEARCH AND DEVELOPMENT

Purchased in-process research and development represents the value assigned in a purchase business combination to research and development projects of the acquired business that were commenced but not yet completed at the date of acquisition, for which technological feasibility has not been established and which have no alternative future use in research and development activities or otherwise. In accordance with Statement of Financial Accounting Standards No. 2, "Accounting for Research and Development Costs," as interpreted by Interpretation No. 4, amounts assigned to purchased in-process research and development meeting the above criteria must be charged to expense at the date of consummation of the purchase business combination.

In January 1999, the Company purchased enabling technology and fixed assets used in the design, development, manufacture, marketing and sale of laminate substrates (the "X-LAM technology") for \$8.0 million. The Company has allocated the majority of the purchase price to intangible assets, including in-process research and development. The portion of the purchase price allocated to in-process research and development was charged to expense in fiscal 1999. The other purchased intangibles include core technology and assembled workforce. These intangibles are being amortized over their estimated useful lives of 1 - 5 years.

The Company allocated the purchase price as follows:

In-process research and development	\$3,935
Core technology	3,447
Property, plant and equipment	513
Assembled workforce	105

Total	\$8,000
	=====

The Company obtained an independent valuation of the purchased in-process research and development. The income valuation approach was used to determine the fair value of the in-process research and development. The Company estimated that the purchased technology was 60% complete and the technology would be marketable in fiscal 2000 and would generate positive cash flow beginning in fiscal 2001. These estimates are subject to change, given uncertainties of the development process, and no assurance can be given that deviations from these estimates will not occur.

NOTE 5: INVESTMENTS

At September 30, 1999 and 1998, no short-term investments were classified as trading or held-to-maturity. Investments, excluding cash equivalents, consisted of the following at September 30, 1999 and 1998:

	SEPTEMBER 30, 1999			September 30, 1998		
	FAIR VALUE	UNREALIZED GAINS/ (LOSSES)	COST BASIS	Fair Value	Unrealized Gains/ (Losses)	Cost Basis
Available-for-sale:						
U.S. Treasuries	\$ --	\$ --	\$ --	\$ 2,355	\$ 21	\$ 2,334
Corporate debt securities	--	--	--	28,067	136	27,931
Adjustable rate notes	2,190	(74)	2,264	--	--	--
	-----	-----	-----	-----	-----	-----
Short-term investments classified as available for sale	\$ 2,190	\$ (74)	\$ 2,264	\$30,422	\$ 157	\$30,265
	=====	=====	=====	=====	=====	=====

An after-tax unrealized loss of \$48 (net of taxes of \$26) and an after-tax unrealized gain of \$116 (net of taxes of \$41) were recorded as direct adjustments to shareholders' equity at September 30, 1999 and September 30, 1998, respectively.

NOTE 6: BALANCE SHEET COMPONENTS

	SEPTEMBER 30,	
	1999	1998
INVENTORIES:		
Raw materials and supplies	\$ 35,981	\$ 28,062
Work in process	24,033	11,381
Finished goods	16,696	23,788
	76,710	63,231
Inventory reserves	(14,928)	(15,658)
	\$ 61,782	\$ 47,573

	SEPTEMBER 30,	
	1999	1998
PROPERTY, PLANT AND EQUIPMENT:		
Land	\$ 1,453	\$ 1,453
Buildings and building improvements	21,608	21,124
Machinery and equipment	105,148	72,992
Leasehold improvements	15,960	4,289
	144,169	99,858
Accumulated depreciation	(76,684)	(51,589)
	\$ 67,485	\$ 48,269

Accrued expenses at September 30, 1999 and 1998 include \$12,100 and \$10,981, respectively, for accrued wages, incentives and vacations.

NOTE 7: DEBT OBLIGATIONS

At September 30, 1999, the Company recorded a short-term debt obligation of \$1,178 reflecting debt due to Delco, the 26.4% owner of FCT, by FCT. At September 30, 1998 the Company's debt obligations consisted entirely of capital lease obligations which matured in fiscal 1999. Interest paid on the Company's debt obligations totaled \$215, \$262 and \$2,331, in fiscal 1999, 1998 and 1997, respectively.

The Company has a \$60,000 revolving credit facility expiring on March 26, 2003. At September 30, 1999, the Company had no cash borrowings outstanding under the credit facility, but had utilized \$960 of availability under the credit facility to support letters of credit issued as security deposits for its new manufacturing facility in Singapore and its new X-LAM facility. The revolving credit facility provides for borrowings denominated in either U.S. dollars or foreign currencies. Borrowings in U.S. dollars bear interest either at a Base Rate (defined as the greater of the prime rate minus 1/4% or the federal funds rate plus 1/2%) or, at a LIBOR Rate (defined as LIBOR plus .4% to .8%, depending on the Company's leverage ratio). Foreign currency borrowings bear interest at a LIBOR Rate, as defined above, applicable to the foreign currency.

The Amended and Restated Loan Agreement is guaranteed by certain of the Company's domestic subsidiaries and requires the Company maintain certain financial covenants including a leverage ratio and an interest coverage ratio or liquidity ratio. The Amended and Restated Loan Agreement also limits the Company's ability to mortgage, pledge or dispose of a material portion of its assets and imposes restrictions on the Company's investments and acquisitions. There were no borrowings under this bank credit facility during fiscal 1999. The Company was in compliance with the covenants of the Amended and Restated Loan Agreement as of September 30, 1999.

NOTE 8: SHAREHOLDERS' EQUITY

Common Stock

In May 1997, the Company completed the sale of 3,450,000 shares of its common stock in an underwritten offering, resulting in net proceeds to the Company approximating \$101,103. A portion of these proceeds was used to repay the \$50,000 outstanding balance under the Company's existing bank revolving credit facility.

Stock Option Plans

The Company has six employee stock option plans covering substantially all employees (the "Employee Plans") pursuant to which options have been or may be granted at 100% of the market price of the Company's Common Stock on the date of grant. Options may no longer be granted under three of the plans. Options granted under the Employee Plans are exercisable at such dates as are determined in connection with their issuance, but not later than ten years after the date of grant.

The following summarizes all employee stock option activity for the three years ended September 30, 1999:

	SEPTEMBER 30,					
	1999		1998		1997	
	OPTIONS	AVERAGE EXERCISE PRICE	OPTIONS	AVERAGE EXERCISE PRICE	OPTIONS	AVERAGE EXERCISE PRICE
	-----	-----	-----	-----	-----	-----
	(SHARE AMOUNTS IN THOUSANDS)					
Options outstanding at beginning of period	2,180	\$17.98	1,072	\$15.05	815	\$15.08
Granted or reissued	835	25.79	1,300	20.64	552	12.00
Exercised	(38)	7.54	(41)	9.62	(231)	7.72
Terminated or canceled	(111)	19.61	(151)	22.36	(64)	15.94
	-----		-----		-----	
Options outstanding at end of period	2,866	20.33	2,180	17.98	1,072	15.05
	=====		=====		=====	
Options exercisable at end of period	702	16.58	317	13.79	132	12.35
	=====		=====		=====	

The Company also maintains two stock option plans for non-officer directors (the "Director Plans") pursuant to which options to purchase 5,000 shares of the Company's Common Stock at an exercise price of 100% of the market price on the date of grant are issued to each non-officer director each year. Options can no longer be granted under one of these plans. Options to purchase 201,000 shares at an average exercise price of \$19.87 were outstanding under the Director Plans at September 30, 1999, of which options to purchase 97,000 shares were currently exercisable. No options under the Director Plans were exercised during 1999.

At September 30, 1999, 4,664,000 shares were reserved for issuance and 1,798,000 shares were available for grant in connection with the Employee Plans and 626,000 shares were reserved for issuance and 425,000 shares were available for grant in connection with the Director Plans.

The following table summarizes information concerning currently outstanding and exercisable options at September 30, 1999:

RANGE OF EXERCISE PRICES	OPTIONS OUTSTANDING			OPTIONS EXERCISABLE	
	NUMBER OUTSTANDING	WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE	WEIGHTED AVERAGE EXERCISE PRICE	NUMBER EXERCISABLE	WEIGHTED AVERAGE EXERCISE PRICE
-----	-----	----	-----	-----	-----
\$ 2.62 - \$10.00	220	4.4	\$ 7.04	168	\$ 6.72
\$10.01 - \$20.00	1,289	8.2	\$12.94	361	\$12.63
\$20.01 - \$30.00	839	9.9	\$25.78	2	\$23.63
\$30.01 - \$39.00	518	7.3	\$35.55	171	\$34.56
	-----			---	
	2,866	8.2	\$20.33	702	\$16.58

As permitted under Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123"), the Company has elected to follow Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25"), in accounting for stock options granted to employees. Under APB 25, the Company generally recognizes no compensation expense in the income statement with respect to such grants.

Unaudited pro forma information regarding net income and earnings per share is required by SFAS 123 for options granted after October 1, 1995 as if the Company had accounted for its stock option grants to employees under the fair value method of SFAS 123. The fair value of the Company's stock option grants to employees was estimated using a Black-Scholes option pricing model.

The following assumptions were employed to estimate the fair value of stock options granted to employees:

	FISCAL YEAR ENDED SEPTEMBER 30,		
	1999	1998	1997
Expected dividend yield	\$ 0.00	\$ 0.00	\$ 0.00
Expected stock price volatility	74.00%	73.00%	71.00%
Risk-free interest rate	5.84%	5.40%	6.16%
Expected life (years)	8	7	6

For pro forma purposes, the estimated fair value of the Company's stock options to employees is amortized over the options' vesting period. The Company's pro forma information follows:

	FISCAL YEAR ENDED SEPTEMBER 30,		
	1999	1998	1997
Weighted average fair value of options granted	\$ 19.92	\$ 15.18	\$ 8.22
Net income (loss) - as reported	(16,946)	(5,440)	38,319
Net income (loss) - unaudited pro forma	(20,499)	(8,040)	37,069
Net income (loss) per share - as reported, diluted	(.72)	(0.23)	1.79
Net income (loss) per share - unaudited pro forma, diluted	(.88)	(0.35)	1.72

NOTE 9: EMPLOYEE BENEFIT PLANS

The Company has a non-contributory defined benefit pension plan covering substantially all U.S. employees who were employed on September 30, 1995. The benefits for this plan were based on the employees' years of service and the employees' compensation during the three years before retirement. The Company's funding policy is consistent with the funding requirements of Federal law and regulations. Effective December 31, 1995, the benefits under the Company's pension plan were frozen. As a consequence, accrued benefits no longer change as a result of an employee's length of service or compensation. In fiscal 1999, the Company adopted SFAS No. 132, "Employers' Disclosures about Pension and Other Post-retirement Benefits." The disclosures for fiscal 1998 and 1997 have been restated for comparative purposes.

Detailed information regarding the Company's defined benefit pension is as follows:

	FISCAL YEAR ENDED SEPTEMBER 30,		
	1999	1998	1997
Change in benefit obligation:			
Benefit obligations at beginning of year:	\$ 11,802	\$ 11,198	\$ 10,340
Interest cost	885	840	776
Benefits paid	(407)	(405)	(399)
Actuarial (gain) loss	(324)	169	481
Benefit obligation at end of year	\$ 11,956	\$ 11,802	\$ 11,198

	FISCAL YEAR ENDED SEPTEMBER 30,		
	1999	1998	1997
Change in plan assets:			
Fair value of plan assets at beginning of year:	\$ 10,542	\$ 10,372	\$ 9,770
Actual return on plan assets	1,066	490	980
Employer contributions	--	85	21
Benefits paid	(407)	(405)	(399)
Fair value of assets at end of year	\$ 11,201	\$ 10,542	\$ 10,372
Reconciliation of funded status:			
Funded status	\$ (755)	\$ (1,260)	\$ (826)
Unrecognized actuarial loss	1,181	1,749	1,245
Net amount recognized at year-end	\$ 426	\$ 489	\$ 419
Amount recognized in the statement of financial position consists of:			
Accrued benefit liability	\$ (755)	\$ (1,260)	\$ (826)
Accumulated other comprehensive income/unrecognized net loss	1,181	1,749	1,245
Net amount recognized at year-end	\$ 426	\$ 489	\$ 419
Components of net periodic benefit cost:			
Interest cost	\$ 885	\$ 840	\$ 776
Expected return on plan assets	(858)	(833)	(720)
Recognized actuarial loss	36	8	--
Net periodic benefit cost	\$ 63	\$ 15	\$ 56
Weighted-average assumptions as of September 30:			
Discount rate	7.75%	7.50%	7.50%
Expected long-term rate of return on plan assets	8.00%	8.00%	7.00%
Rate of compensation increase	*	*	*

* Not applicable due to the December 31, 1995 benefit freeze.

The Company's foreign subsidiaries have retirement plans that are integrated with and supplement the benefits provided by laws of the various countries. They are not required to report nor do they determine the actuarial present value of accumulated benefits or net assets available for plan benefits. The Company believes these plans are substantially fully funded as to vested benefits. On a consolidated basis, pension expense was \$998, \$914 and \$991, in fiscal 1999, 1998 and 1997, respectively.

The Company has a 401(k) Employee Incentive Savings Plan. This plan allows for employee contributions and matching Company contributions in varying percentages, depending on employee age and years of service, ranging from 30% to 175% of the employees' contributions. The Company's contributions under this plan totaled \$1,662, \$2,240 and \$1,793 in fiscal 1999, 1998 and 1997, respectively, and were satisfied by contributions of shares of Company common stock, valued at the market price on the date of the matching contribution.

NOTE 10: INCOME TAXES

Income (loss) before income taxes and after minority interest in net loss consisted of the following:

	FISCAL YEAR ENDED SEPTEMBER 30,		
	1999	1998	1997
United States operations	\$ (43,663)	\$ (17,953)	\$ 32,879
Foreign operations	18,496	10,596	18,903
	\$ (25,167)	\$ (7,357)	\$ 51,782

The provision (benefit) for income taxes included the following:

	FISCAL YEAR ENDED SEPTEMBER 30,		
	1999	1998	1997
Current:			
Federal	\$ (2,218)	\$ (7,210)	\$ 8,722
State	50	50	700
Foreign	2,410	4,155	3,797
Deferred:			
Federal	(8,613)	840	244
Foreign	150	248	--
	\$ (8,221)	\$ (1,917)	\$ 13,463

The provision (benefit) for income taxes differed from the amount computed by applying the statutory federal income tax rate as follows:

	FISCAL YEAR ENDED SEPTEMBER 30,		
	1999	1998	1997
Computed income tax expense (benefit) based on U.S. statutory rate	\$ (8,808)	\$ (2,575)	\$ 18,124
Effect of earnings of foreign subsidiaries subject to different tax rates	603	(289)	(1,212)
Benefits from Israeli Approved Enterprise Zones	(4,509)	(1,532)	(1,049)
Benefits of net operating loss and tax credit carryforwards and change in valuation allowance	4,200	(951)	(1,819)
Non-deductible goodwill amortization	677	677	659
Provision for repatriation of certain foreign earnings, including foreign withholding taxes	150	3,298	--
Effect of revisions of prior year's estimated taxes	(533)	(779)	(205)
Benefits of Foreign Sales Corporation	--	--	(985)
Other, net	(1)	234	(50)
	\$ (8,221)	\$ (1,917)	\$ 13,463

Undistributed earnings of certain foreign subsidiaries for which taxes have not been provided approximate \$40,447 at September 30, 1999. Such undistributed earnings are intended to be indefinitely reinvested in foreign operations.

Undistributed earnings approximating \$73,000 are not considered to be indefinitely reinvested in foreign operations. Accordingly, as of September 30, 1999, deferred tax liabilities of \$12,414 including withholding taxes but net of estimated foreign tax credits, have been provided.

Deferred income taxes are determined based on the differences between the financial reporting and tax basis of assets and liabilities as measured by the current tax rates. The net deferred tax balance is composed of the tax effects of cumulative temporary differences, as follows:

	SEPTEMBER 30,	
	1999	1998
Repatriation of foreign earnings, including foreign withholding taxes	\$ 12,414	\$ 12,264
Depreciable assets	2,592	2,073
Prepaid expenses and other	1,541	831
Total deferred tax liability	16,547	15,168

SEPTEMBER 30,

	1999	1998
Inventory reserves	2,291	3,299
Warranty accrual	655	750
Other accruals and reserves	2,298	3,621
Intangible assets	1,446	--
Domestic NOL carryforwards	19,430	3,894
Foreign NOL carryforwards	6,359	4,436
Domestic tax credit carryforwards	5,409	6,730
Deferred intercompany profit	1,945	2,137
	39,833	24,867
Valuation allowance	(12,215)	(7,091)
	27,618	17,776
Total deferred tax asset	27,618	17,776
	\$ 11,071	\$ 2,608
Net deferred tax asset	\$ 11,071	\$ 2,608

Realization of deferred tax assets associated with the net operating loss and tax credit carryforwards is dependent upon generating sufficient taxable income prior to their expiration in the respective tax jurisdictions. The Company believes there is a risk that certain of these tax credits carryforwards may expire unused and, accordingly, has established certain valuation allowances. The valuation allowance at September 30, 1999 relates to U.S. foreign tax credit carryforwards expiring through the year 2014, acquired domestic net operating loss carryforwards expiring through the year 2010 whose realization is limited to the U.S. earnings of the acquired company, and foreign net operating loss carryforwards which are scheduled to expire through the 2004 fiscal year. Although realization is not assured for the remaining deferred tax assets, the Company believes it is more likely than not that they will be realized through future taxable earnings or alternative tax strategies. However, the net deferred tax assets could be reduced in the near term if the Company's estimates of taxable income during the carryforward period are significantly reduced or alternative tax strategies are no longer viable. In the event the tax benefits relating to acquired net operating loss carryforwards are realized, such benefits would reduce the recorded amount of goodwill.

The IRS is currently auditing the Company's federal income tax returns for fiscal 1995, 1996, 1997 and 1998. Management believes sufficient taxes have been provided in prior years and that the ultimate outcome of the IRS audits will not have a material adverse impact on the Company's financial position, results of operations or cash flows.

The Company paid income taxes of \$3,753, \$8,817 and \$9,965, in fiscal 1999, 1998 and 1997, respectively.

NOTE 11: SEGMENT INFORMATION

The Company evaluates performance of its segments and allocates resources to them based on income from operations before interest, allocations of corporate expenses and income taxes.

The Company operates primarily in three industry segments: equipment, packaging materials and advanced packaging technologies. The equipment business unit designs, manufactures and markets capital equipment and related spare parts for use in the semiconductor assembly process. Equipment also services, maintains, repairs and upgrades assembly equipment. The packaging materials business designs, manufactures and markets consumable packaging materials for use on the equipment the company markets as well as on competitors' equipment. The packaging materials products have different manufacturing processes, distribution channels and a less volatile revenue pattern than the Company's capital equipment. The advanced packaging technology business unit was established in fiscal 1999 to reflect the Company's strategic initiative to develop new technologies for advanced semiconductor packaging. This segment is comprised of FCT and the Company's X-LAM business unit. The products of all segments are, or will be, for sale to semiconductor device manufacturers. The Company's equity method investment in APS is considered part of the packaging materials segment.

The table below presents information about reported segments:

FISCAL YEAR ENDED SEPTEMBER 30, 1999	EQUIPMENT SEGMENT	PACKAGING MATERIALS SEGMENT	ADVANCED PACKAGING TECHNOLOGY SEGMENT	CORPORATE, OTHER AND ELIMINATIONS	CONSOLIDATED
NET SALES	\$ 269,854	124,450	\$ 4,613	\$ --	\$ 398,917
COST OF GOODS SOLD	188,958	90,326	6,098	--	285,382
GROSS PROFIT	80,896	34,124	(1,485)	--	113,535
OPERATING EXPENSES	86,239	23,500	5,314	8,361	123,414
RESIZING COSTS	5,918	--	--	--	5,918
PURCHASED IN-PROCESS RESEARCH AND DEVELOPMENT	--	--	--	3,935	3,935
INCOME (LOSS) FROM OPERATIONS	\$ (11,261)	\$ 10,624	\$ (6,799)	\$ (12,296)	\$ (19,732)
EQUITY IN LOSS OF JOINT VENTURES	\$ --	\$ (837)	\$ (9,163)	\$ --	\$ (10,000)
SEGMENT ASSETS	\$ 200,837	\$ 86,398	\$ 37,560	\$ 53,350	\$ 378,145
CAPITAL EXPENDITURES	6,522	2,136	2,233	--	10,891
DEPRECIATION EXPENSE	7,339	3,951	1,814	--	13,104

FISCAL YEAR ENDED SEPTEMBER 30, 1998	EQUIPMENT SEGMENT	PACKAGING MATERIALS SEGMENT	CORPORATE, OTHER AND ELIMINATIONS	CONSOLIDATED
Net sales	\$ 302,107	\$ 108,933	\$ --	\$ 411,040
Cost of goods sold	191,948	82,259	--	274,207
Gross profit	110,159	26,674	--	136,833
Operating expenses	101,099	22,829	8,641	132,569
Resizing costs	5,984	1,724	712	8,420
Income (loss) from operations	\$ 3,076	\$ 2,121	\$ (9,353)	\$ (4,156)
Equity in loss of joint ventures	\$ --	\$ --	\$ (8,715)	\$ (8,715)
Segment assets	\$ 129,568	\$ 78,318	\$ 134,698	\$ 342,584
Capital expenditures	12,809	3,253	--	16,062
Depreciation expense	7,285	3,611	--	10,896

FISCAL YEAR ENDED SEPTEMBER 30, 1997	EQUIPMENT SEGMENT	PACKAGING MATERIALS SEGMENT	CORPORATE, OTHER AND ELIMINATIONS	CONSOLIDATED
Net sales	\$ 391,721	\$ 110,186	\$ --	\$ 501,907
Cost of goods sold	228,854	89,148	--	318,002
Gross profit	162,867	21,038	--	183,905
Operating expenses	97,143	21,029	8,070	126,242
Income (loss) from operations	\$ 65,724	\$ 9	\$ (8,070)	\$ 57,663
Equity in loss of joint ventures	\$ --	\$ --	\$ (6,701)	\$ (6,701)
Segment assets	\$ 159,124	\$ 87,973	\$ 129,722	\$ 376,819
Capital expenditures	7,749	5,767	--	13,516
Depreciation expense	5,977	2,968	--	8,945

Intersegment sales are immaterial. Operating expenses identified as Corporate, Other and Eliminations consist entirely of corporate expenses. Assets identified as Corporate, Other and Eliminations consist of all cash and short-term investments of the Company and corporate income tax assets.

The Company's market for its products is worldwide. The table below presents destination sales to unaffiliated customers and long-lived assets by country:

FISCAL YEAR ENDED SEPTEMBER 30, 1999	DESTINATION SALES	LONG-LIVED ASSETS
TAIWAN	\$ 93,317	\$ 606
UNITED STATES	69,353	230,337
SINGAPORE	44,642	48,653
PHILIPPINES	42,607	656
MALAYSIA	40,172	127
JAPAN	19,262	13,738
HONG KONG	19,096	4,875
ISRAEL	1,007	20,300
ALL OTHER	69,461	5,503
	-----	-----
	\$398,917	\$324,795
	=====	=====

FISCAL YEAR ENDED SEPTEMBER 30, 1998	DESTINATION SALES	LONG-LIVED ASSETS
Taiwan	\$ 82,957	\$ 660
United States	82,053	123,308
Philippines	70,675	796
Malaysia	63,817	149
Singapore	18,932	39,095
Korea	15,205	309
Hong Kong(1)	14,815	6,863
Israel	1,397	24,834
All other	61,189	11,872
	-----	-----
	\$411,040	\$207,886
	=====	=====

(1) The reduction in assets from \$44,526 in fiscal 1997 to \$6,863 in fiscal 1998 was due to lower accounts receivable resulting from the centralization of the Company's invoicing practices, for equipment sales, to the US.

FISCAL YEAR ENDED SEPTEMBER 30, 1998	DESTINATION SALES	LONG-LIVED ASSETS
Taiwan	\$109,822	\$ 424
Korea	97,370	185
United States	74,817	122,061
Malaysia	66,231	127
Philippines	39,435	--
Singapore	26,825	42,762
Hong Kong	13,990	44,526
Israel	731	25,872
All other	72,686	11,140
	-----	-----
	\$501,907	\$247,097
	=====	=====

Sales to a relatively small number of customers account for a significant percentage of the Company's net sales. In fiscal 1999 no customer accounted for more than 10% of total net sales but in fiscal 1998, sales to Intel accounted for 17.6% of the Company's net sales and in fiscal 1997, sales to Anam (a Korea-based customer) and Intel accounted for approximately 12.5% and 10.2%, respectively, of net sales. The Company expects that sales of its products to a limited number of customers will continue to account for a high percentage of net sales for the foreseeable future.

NOTE 12: OTHER FINANCIAL DATA

In July 1998, the Company decided to discontinue the manufacture and sale of a line of products acquired in July 1994 from Assembly Technologies. As a consequence, no future cash flows from this product line were anticipated and \$948 of goodwill arising from this acquisition was written off in the Company's fiscal 1998 fourth quarter, in accordance with the provisions of SFAS 121.

Maintenance and repairs expense totaled \$2,551, \$3,582 and \$4,316 for fiscal 1999, 1998 and 1997, respectively. Warranty and retrofit expense was \$4,586, \$4,796 and \$5,788 for fiscal 1999, 1998 and 1997, respectively.

Rent expense for fiscal 1999, 1998 and 1997 was \$3,216, \$2,997 and \$3,191, respectively.

A reconciliation of weighted average shares outstanding-basic to the weighted average shares outstanding-diluted appears below:

	(Shares in thousands)		
	Fiscal Year Ended September 30,		
	1999	1998	1997
	-----	-----	-----
Weighted average shares outstanding - Basic	23,423	23,301	20,871
Potentially dilutive securities:			
Employee stock options	*	*	557
	-----	-----	-----
Weighted average shares outstanding - Diluted	23,423	23,301	21,428
	=====	=====	=====

* Due to the Company's net loss for the fiscal years ended September 30, 1999 and September 30, 1998, all potentially dilutive securities are deemed to be antidilutive. The weighted average number of shares for potentially dilutive securities (employee and director stock options) was 666,000 in fiscal 1999 and 366,000 in fiscal 1998.

NOTE 13: COMMITMENTS AND CONTINGENCIES

The Company has obligations under various operating leases, primarily for manufacturing and office facilities, which expire periodically through 2006. Minimum rental commitments under these leases (excluding taxes, insurance, maintenance and repairs, which are also paid by the Company), are as follows: \$3,970 in 2000; \$3,107 in 2001; \$2,642 in 2002; \$1,376 in 2003; \$1,237 in 2004 and \$2,312 thereafter.

The Company entered into a joint venture agreement, in September 1998, to develop, manufacture and market advanced polymer materials for semiconductor and microelectronic packaging end users. The Company has invested approximately \$3,800 in this joint venture and has committed to invest an additional \$2,200.

From time to time, third parties assert that the Company is, or may be, infringing or misappropriating their intellectual property rights. In such cases, the Company will defend against claims or negotiate licenses where considered appropriate. In addition, certain of the Company's customers have received notices of infringement from the Lemelson Medical, Education and Research Foundation Limited Partnership (the "Lemelson Foundation"), alleging that equipment supplied by the Company, and processes performed by such equipment, infringe on patents held by the Lemelson Foundation. This activity increased substantially in 1998, the year in which the Lemelson Foundation settled its suit against the Ford Motor Company, and entered into License Agreements with Ford, GM and Chrysler. Since the settlement a number of the Company's customers, including Intel, have been sued by the Lemelson Foundation. Certain customers have requested that the Company defend and indemnify them against the claims of the Lemelson Foundation or to contribute to any settlement the customer reaches with the Lemelson Foundation. The Company has received opinions from its outside patent counsel with respect to certain of the Lemelson Foundation patents. The Company is not aware that any equipment marketed by the Company, or process performed by such equipment, infringe on the Lemelson Foundation patents in question and does not believe that the Lemelson Foundation matter or any other pending intellectual property claim will have a material adverse effect on its business, financial condition, operating results or cash flows. However, the ultimate outcome of any infringement or misappropriation claim affecting the Company is uncertain, and there can be no assurances that the resolution of these matters will not have a material adverse effect on the Company's business, financial condition, operating results or cash flows.

The Israeli government has funded a portion of the research and development costs related to certain products. The Company is contingently liable to repay such funding through royalties to the Israeli government. Royalty payments are due only upon sale of the funded products, are computed at varying rates from 2% to 5% of such sales and are limited to the amounts received from the Israeli government. Royalty payments to the Israeli government for the fiscal years ended September 30, 1999, 1998 and 1997 totaled \$4, \$286 and \$148, respectively. At September 30, 1999, the Company was contingently liable for royalties approximating \$2,302 related to potential future product sales.

The Company is obligated, under a foreign exchange contract, to purchase 1,600 Swiss Francs in March 2000 for \$1,079. Based on the year-end exchange rate the fair value of the obligation approximates the contract value.

The U.S. Customs is currently conducting an assessment of the Company's compliance with Customs Regulations for the fiscal year ended September 30, 1998. Management believes that the ultimate outcome of this assessment will not materially and adversely affect the Company's business, financial condition, operating results or cash flows.

NOTE 14: SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

Financial information pertaining to quarterly results of operations follows:

YEAR ENDED SEPTEMBER 30, 1999:	FIRST QUARTER -----	SECOND QUARTER -----	THIRD QUARTER -----	FOURTH QUARTER -----	TOTAL -----
NET SALES	\$ 61,175	\$ 73,561	\$ 110,806	\$ 153,375	\$ 398,917
GROSS PROFIT	16,176	21,025	30,374	45,960	113,535
INCOME (LOSS) FROM OPERATIONS (1) (3)	(10,282)	(17,087)	(776)	8,413	(19,732)
INCOME (LOSS) BEFORE MINORITY INTEREST AND INCOME TAXES	(12,663)	(21,109)	(1,224)	8,811	(26,185)
INCOME TAX EXPENSE (BENEFIT)	(3,800)	(6,333)	(283)	2,195	(8,221)
MINORITY INTEREST IN NET LOSS	--	--	282	736	1,018
NET INCOME (LOSS)	\$ (8,863)	\$ (14,776)	\$ (659)	\$ 7,352	\$ (16,946)
NET INCOME (LOSS) PER SHARE:	=====	=====	=====	=====	=====
BASIC	\$ (0.38)	\$ (0.63)	\$ (0.03)	\$.31	\$ (0.72)
DILUTED	\$ (0.38)	\$ (0.63)	\$ (0.03)	\$.30	\$ (0.72)

Year ended September 30, 1998:	First Quarter -----	Second Quarter -----	Third Quarter -----	Fourth Quarter -----	Total -----
Net sales	\$ 123,111	\$ 120,060	\$ 91,693	\$ 76,176	\$ 411,040
Gross profit	45,345	45,987	30,185	15,316	136,833
Income (loss) from operations (2) (3)	10,630	12,987	(3,202)	(24,571)	(4,156)
Income (loss) before income taxes	\$ 9,748	\$ 11,894	\$ (4,222)	\$ (24,777)	\$ (7,357)
Income tax expense (benefit)	2,924	2,703	(1,098)	(6,446)	(1,917)
	-----	-----	-----	-----	-----
Net income (loss)	\$ 6,824	\$ 9,191	\$ (3,124)	\$ (18,331)	\$ (5,440)
Net income (loss) per share:	=====	=====	=====	=====	=====
Basic	\$ 0.29	\$ 0.39	\$ (0.13)	\$ (0.79)	\$ (0.23)
Diluted	\$ 0.29	\$ 0.39	\$ (0.13)	\$ (0.79)	\$ (0.23)

- (1) Results for the first quarter of fiscal 1999 include a charge of \$397 for severance in connection with the resizing of the Company's work-force begun in fiscal 1998. Results of the second quarter include a one-time charge of \$5,521 for severance and asset write-off in connection with the move of ball bonder manufacturing to Singapore and a charge of \$3,935 for purchased in-process research and development in connection with the purchase of the X-LAM technology.
- (2) Results for the fourth quarter of fiscal 1998 include a charge of \$8,420 consisting of \$4,953 of severance, \$1,891 of product discontinuation costs, \$948 of goodwill write-off and \$628 of other costs, in connection with the resizing of the Company's work force and product lines resulting from a slowdown in customer orders.
- (3) Represents net sales less costs and expenses but before net interest expense, equity in loss of joint ventures and other expense.

NOTE 15: SUBSEQUENT EVENT

On December 13, 1999, the Company issued \$150.0 million of convertible subordinated notes. On December 15, 1999 the Company issued an additional \$25.0 million of convertible subordinated notes in connection with the exercise of the initial purchasers' over-allotment option. The notes are general obligations of the Company and subordinated to all senior debt. The notes bear interest at 4 3/4%, are convertible into the Company's common stock at \$45.7993 per share and mature on December 15, 2006. There are no financial covenants associated with the notes and there are no restrictions on paying dividends, incurring additional debt or issuing or repurchasing the Company's securities. Interest on the notes will be paid on June 15 and December 15 of each year beginning June 15, 2000. The Company may redeem the notes in whole or in part at any time after December 18, 2002 at prices ranging from 102.714% at December 19, 2002 to 100.0% at December 15, 2006.

Report of Independent Accountants

To the Members of Flip Chip Technologies, LLC:

In our opinion, the accompanying balance sheet and the related statements of operations, members' equity and of cash flows present fairly, in all material respects, the financial position of Flip Chip Technologies, LLC at September 30, 1999, and the results of its operations and its cash flows for the year ended September 30, 1999 in conformity with accounting principles generally accepted in the United States. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit of these statements in accordance with auditing standards generally accepted in the United States, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for the opinion expressed above.

PricewaterhouseCoopers LLP

Philadelphia, Pennsylvania
December 6, 1999

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To Flip Chip Technologies, LLC:

We have audited the accompanying balance sheet of FLIP CHIP TECHNOLOGIES, LLC (the Company; a Delaware limited liability company) as of September 30, 1998, and the related statements of operations, members' equity and cash flows for each of the two years in the period ended September 30, 1998. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Flip Chip Technologies, LLC at September 30, 1998, and the results of its operations and its cash flows for each of the two years in the period ended September 30, 1998, in conformity with generally accepted accounting principles.

ARTHUR ANDERSEN LLP

Phoenix, Arizona,
November 19, 1998

FLIP CHIP TECHNOLOGIES, LLC
BALANCE SHEETS
SEPTEMBER 30, 1999 AND 1998

	1999	1998
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 839,122	\$ 1,269,566
Accounts receivable (net of allowance for bad debts of \$14,309 in 1999 and \$0 in 1998)	2,483,074	1,052,161
Due from Member	--	58,583
Materials inventory	67,140	89,091
Deposits	200,667	91,200
Prepaid expenses	121,236	35,464
	-----	-----
Total current assets	3,711,239	2,596,065
Property and equipment, net	20,843,846	22,317,827
Deposits	390,470	680,603
	-----	-----
	\$ 24,945,555	\$ 25,594,495
	=====	=====
LIABILITIES AND MEMBERS' EQUITY		
Current Liabilities		
Accounts payable	\$ 2,042,123	\$ 1,721,686
Accrued compensation and related taxes	559,827	742,438
Accrued interest	151,962	559,966
Other accrued expenses	1,760,984	511,249
Due to members	332,118	--
Notes payable to members, current portion	1,025,805	5,000,000
	-----	-----
Total current liabilities	5,872,819	8,535,339
Accrued interest	--	757,423
Notes payable to members, net of current portion	--	15,478,142
	-----	-----
Total liabilities	5,872,819	24,770,904
Commitments and contingencies		
Members' Equity		
Members' contributions	65,832,294	33,000,000
Accumulated deficit	(46,759,558)	(32,176,409)
	-----	-----
Total members' equity	19,072,736	823,591
	-----	-----
	\$ 24,945,555	\$ 25,594,495
	=====	=====

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

FLIP CHIP TECHNOLOGIES, LLC
 STATEMENTS OF OPERATIONS
 FOR THE YEARS ENDED SEPTEMBER 30, 1999, 1998 AND 1997

	1999	1998	1997
Wafer processing and engineering	\$ 12,853,027	\$ 4,342,133	\$ 887,332
Licensing	1,000,000	--	--
	-----	-----	-----
Net revenues	13,853,027	4,342,133	887,332
Cost of wafer processing, engineering and licensing	19,379,453	15,409,290	9,264,540
	-----	-----	-----
Gross margin	(5,526,426)	(11,067,157)	(8,377,208)
Operating expenses:			
Research and development	709,159	530,816	507,467
Sales and marketing	3,168,417	2,524,974	2,574,042
General and administrative	3,149,922	1,805,229	1,735,161
Resizing expense	475,000	--	--
	-----	-----	-----
	7,502,498	4,861,019	4,816,670
Loss from operations	(13,028,924)	(15,928,176)	(13,193,878)
Other income (expense)			
Interest income	112,643	55,865	118,095
Other income	--	53,023	--
Interest expense	(1,666,868)	(1,268,118)	(63,685)
	-----	-----	-----
	(1,554,225)	(1,159,230)	54,410
	-----	-----	-----
Net loss	\$ (14,583,149)	\$ (17,087,406)	\$ (13,139,468)
	=====	=====	=====

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

STATEMENTS OF MEMBERS' EQUITY
 FOR THE YEARS ENDED SEPTEMBER 30, 1999, 1998 AND 1997

	MEMBERS' CONTRIBUTIONS	ACCUMULATED DEFICIT	TOTAL
Balance, September 30, 1996	\$ 5,000,000	\$ (1,949,535)	\$ 3,050,465
Cash contributions	28,000,000	--	28,000,000
Net loss	--	(13,139,468)	(13,139,468)
	-----	-----	-----
Balance, September 30, 1997	33,000,000	(15,089,003)	17,910,997
Net loss	--	(17,087,406)	(17,087,406)
	-----	-----	-----
Balance, September 30, 1998	33,000,000	(32,176,409)	823,591
Conversion of member notes and interest	32,832,294	--	32,832,294
Net loss	--	(14,583,149)	(14,583,149)
	-----	-----	-----
Balance, September 30, 1999	\$ 65,832,294	\$ (46,759,558)	\$ 19,072,736
	=====	=====	=====

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

FLIP CHIP TECHNOLOGIES, LLC
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 1999, 1998 AND 1997

	1999	1998	1997
Cash flows from operating activities:			
Net Loss	\$ (14,583,149)	\$ (17,087,406)	\$ (13,139,468)
Adjustments to reconcile net loss to cash used in operating activities:			
Depreciation and amortization	4,698,451	3,964,021	2,146,314
Interest expense converted to equity	1,572,290	--	--
Provision for doubtful accounts	14,309	--	--
Changes in assets and liabilities:			
Accounts receivable	(1,445,222)	(753,342)	(231,176)
Due from Members	58,583	(58,583)	--
Materials inventory	21,951	(26,515)	(62,576)
Prepaid expenses	(85,772)	3,454	(9,706)
Deposits	180,666	(339,265)	(229,038)
Accounts payable	320,437	916,468	89,979
Accrued compensation and related costs	(182,611)	(136,063)	714,588
Accrued interest	94,577	1,257,389	60,000
Other accrued expenses	1,249,735	284,172	208,798
Due to members	332,118	(726,231)	564,333
Accrued construction costs	--	--	(2,504,737)
	-----	-----	-----
Net cash used in operating activities	(7,753,637)	(12,701,901)	(12,392,689)
	-----	-----	-----
Cash flows from investing activities:			
Purchase of fixed assets	(3,224,470)	(3,330,474)	(20,433,227)
	-----	-----	-----
Net cash used in investing activities	(3,224,470)	(3,330,474)	(20,433,227)
	-----	-----	-----
Cash flows from financing activities:			
Member contributions	--	--	28,000,000
Member loans	10,547,663	15,478,142	5,000,000
	-----	-----	-----
Net cash provided by investing activities	10,547,663	15,478,142	33,000,000
	-----	-----	-----
Net increase (decrease) in cash and cash equivalents	(430,444)	(554,233)	174,084
Cash and cash equivalents, beginning of year	1,269,566	1,823,799	1,649,715
	-----	-----	-----
Cash and cash equivalents, end of year	\$ 839,122	\$ 1,269,566	\$ 1,823,799
	=====	=====	=====
Supplemental disclosures of cash flow information and non cash financing activities:			
Cash paid during the year for interest	\$ --	\$ 10,730	\$ --
Conversion of Member notes and interest	32,832,294	--	--

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

NOTES TO FINANCIAL STATEMENTS

1. NATURE OF OPERATIONS:

COMPANY PROFILE

Flip Chip Technologies, LLC (the "Company"), a Delaware limited liability company formed on February 28, 1996, operates under an operating agreement (the Operating Agreement) between members Delphi-Delco Electronics System ("Delco") and Kulicke & Soffa Holdings, Inc. ("K&S") as described in Note 4.

The Company entered into a technology transfer agreement (the Technology Transfer Agreement) with Delco which permits the Company to use and sublicense Delco's Flex-On-Cap bumping technology to provide wafer solder-bumping and related services. The Company's manufacturing facility and corporate offices are located in Phoenix, Arizona.

COMMENCEMENT OF OPERATIONS

The Company incurred significant expenses to commence manufacturing operations, which has resulted in an accumulated deficit of \$46,759,558 at September 30, 1999. The Company's forecast for the year ended September 30, 2000, indicates that additional funding will be needed to meet forecasted cash requirements. Management expects, and has obtained written representation indicating, that K&S will fund the Company's additional cash requirements.

STRATEGY

The markets for the Company's technology are presently served by many companies utilizing different wafer technologies which have significant investments in their respective technologies. The Company's operating results will depend to a significant extent on its ability to attract new customers to use the Company's wafer bumping and finishing technology. The Company provides wafer bumping and finishing services to customers and sublicenses the technology to those customers who desire to use the technology in-house. The Company believes that its technology will be accepted by a sufficient number of customers to sustain future profitable operations.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

REVENUE RECOGNITION

Revenue is recognized on the accrual basis after the wafer bumping process has been completed and the product has been shipped to the customer.

Licensing income is recognized as revenue in accordance with the specific terms of the licensing agreement.

RESEARCH AND DEVELOPMENT

The Company is involved with developing new wafer bumping technologies. In addition, Delco, under the Technology Transfer Agreement, is obligated to provide certain technologies to the Company. Expenses to develop new technology are included in research and development in the accompanying statements of operations.

CASH AND CASH EQUIVALENTS

Cash equivalents consist of investments in a money market account. The cash equivalents are recorded at cost, which approximates market value of \$838,522 and \$1,163,325 at September 30, 1999 and 1998, respectively.

MATERIALS INVENTORY

Materials inventory are recorded at cost and consist of raw materials used in the wafer bumping process. Materials are expensed on consumption during the wafer bumping process.

SIGNIFICANT CUSTOMERS

One customer represented 30% and 26% of total revenue for the years ended September 30, 1999 and 1998, respectively, and 11% and 38% of total accounts receivable at September 30, 1999 and 1998, respectively. Another customer represented 27% of total revenue for the years ended September 30, 1999 and 1998, respectively, and 28% and 25% of total accounts receivable at September 30, 1999 and 1998, respectively.

COMPREHENSIVE INCOME

The Company has adopted SFAS No. 130 "Reporting Comprehensive Income." The Company's comprehensive loss for 1999, 1998 and 1997 is equal to its net loss as reported in the accompanying statements of operations.

PROPERTY AND EQUIPMENT

Property, plant and equipment is recorded at cost and is depreciated using the straight-line method over the estimated useful lives of the respective assets, which range from three to five years for machinery and equipment. Building improvements consist of costs incurred related to the design and construction of leasehold improvements on the Company's manufacturing and corporate headquarters in Phoenix, Arizona. The improvements are being depreciated using the straight-line method over the initial term of the lease, which is ten years. Depreciation expense was \$4,698,451, \$3,964,021 and \$2,146,314 in fiscal years 1999, 1998 and 1997, respectively. When assets are retired or otherwise disposed of, the assets and related accumulated depreciation accounts are adjusted accordingly, and any resulting gain or loss is recorded in current operations.

Property and equipment consisted of the following at September 30:

	1999	1998
Furniture, fixtures and computer equipment	\$ 680,322	\$ 595,101
Building improvements	11,908,208	11,815,757
Machinery and equipment	19,068,349	16,021,551
	-----	-----
	31,656,879	28,432,409
Accumulated depreciation	(10,813,033)	(6,114,582)
	-----	-----
	\$ 20,843,846	\$ 22,317,827
	-----	-----

In accordance with SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of," the carrying value of long-lived assets is evaluated whenever changes in circumstances indicate the carrying amount of such assets may not be recoverable. In performing such review for recoverability, the Company compares the expected future cash flows to the carrying value of long-lived assets and identifiable intangibles. If the anticipated undiscounted future cash flows are less than the carrying amount of such assets, the Company recognizes an impairment loss for the difference between the carrying amount of the assets and their estimated fair value. If an asset being tested for recoverability was acquired in a business combination accounted for using the purchase method, the excess of cost over fair value of net assets that arose in that transaction is allocated to the assets being tested for recoverability on a pro rata basis using the relative fair values of the long-lived assets and identifiable intangibles acquired at the acquisition date. The Company has not identified any impairments as of September 30, 1999.

FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amounts of cash, cash equivalents, accounts receivable, accounts payable and accrued expenses are stated at cost, which approximates fair value, because of the short maturity of these financial instruments. The Company's long-term debt bears interest at average interest rates which approximate market rates at September 30, 1999.

USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

INCOME TAXES

The Company, with the consent of its members, is a limited liability company which qualifies for tax treatment as a partnership for federal and state income tax purposes. As a result, the Company's results of operations are included in the income tax returns of its members. Therefore, the accompanying financial statements do not include any provisions for income taxes.

DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

In June 1998, Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133") was issued. SFAS 133 establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts (collectively referred to as derivatives) and for hedging activities. It requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. This Statement is effective for fiscal years commencing after June 15, 2000. Management does not believe that the adoption of SFAS 133 will have a material impact on the financial statements.

3. NOTES PAYABLE TO MEMBERS

Through May 1999, the Company had entered into four separate loan agreements with K&S. The Company had borrowed \$30 million under these agreements. On May 31, 1999, K&S converted these loans and accrued interest of \$2,832,294 to capital contributions based upon the fair market value of the Company, as determined by independent appraisers pursuant to the Loan Agreements and the Operating Agreement.

In February 1998, the Company entered into a loan agreement with Delco, pursuant to which Delco will continue to provide and perform ongoing engineering support services in accordance with the Technology Transfer Agreement. The amount owed to Delco for past engineering support costs as of the agreement date was included in this loan agreement. Subsequent billings for engineering support services through May 31, 1999 have been added to the loan amount. The note carries an interest rate of prime (8.25% as of September 30, 1999) plus 1.5%. The loan's principal and accrued interest balances as of September 30, 1999, are \$1,025,805 and \$151,962, respectively. Delco has the option to convert this note plus accrued interest to a capital contribution, but on July 14, 1999 requested that this loan and its related interest be paid in full. The Company is presently in default of this loan as it has not repaid this loan or any of the related accrued interest, as a result the note is classified as a current liability at September 30, 1999.

4. OPERATING AGREEMENT

As stated above, the Company operates under the Operating Agreement, which was entered into on February 28, 1996, between Delco and K&S. The Company registered in Delaware as a limited liability company to obtain a license to use technology and to engage in the business of providing wafer bumping services and licensing or sublicensing technology related to such services.

K&S and Delco had made initial capital contributions of \$16,830,000 and \$16,170,000, respectively. During 1999, K&S converted its notes payable and related accrued interest of \$32,832,294 into equity units. The ownership units, associated with the conversion, were based upon the fair market value of the Company determined by an independent appraisal.

The members have agreed not to compete with the Company while being a member of the Company or for a period of 24 months thereafter.

The Company shall continue until such time of dissolution. Dissolution will occur upon the following: the agreement of both Members to dissolve and terminate the Company; the sale, abandonment or other disposition of all or substantially all of the assets of the Company; or the dissociation of any Member unless the remaining Member elects to continue the business.

5. TECHNOLOGY TRANSFER AGREEMENT

On February 28, 1996, the Company entered into the Technology Transfer Agreement with Delco, allowing

the Company to use and sublicense Flex-On-Cap (FOC) technology owned by Delco. The Technology Transfer Agreement also gives the Company exclusive rights to future bumping technology developed by Delco.

For a period of up to five years, Delco shall provide ongoing engineering support, at the request of the Company, in accordance with the terms in the Technology Transfer Agreement.

The Company pays a royalty to Delco through February 27, 2001 equal to 10% of gross profit, as defined in the Technology Transfer Agreement, derived from the sale, service or transfer of licensed products made using the existing FOC technology and technological improvements. Thereafter, the royalty rate shall be decreased by 1% annually for each succeeding year through February 27, 2006. Beginning February 27, 2006, no further royalty shall be due.

Sublicensing profit is divided between Delco and the Company. Delco receives 30% of the profit, as defined by the technology Transfer Agreement, and the Company retains the remaining 70%.

6. STOCK OPTION PLAN

There is a stock option plan for officers and key employees pursuant to which options to purchase Kulicke and Soffa Industries, Inc common stock have been or may be granted at 100% of the market price of Kulicke and Soffa Industries, Inc. common stock on the date of the grant. Options granted under the Employee Plans are exercisable at such dates as are determined in connection with their issuance, but not later than ten years after the date of grant. Effective September 28, 1999, the Company's officers and key employees participated in the plan.

The following summarizes employee stock option activity for the year ended September 30, 1999:

	SEPTEMBER 30, 1999	

		AVERAGE
		EXERCISE
	OPTIONS	PRICE
	-----	-----
	(SHARE AMOUNTS IN THOUSANDS)	
Options outstanding at beginning of period	--	N/A
Granted	29	25.88
Exercised	--	N/A
Terminated or canceled	--	N/A

Options outstanding at end of period	29	25.88
	=====	
Options exercisable at end of period	--	N/A
	=====	

The following table summarizes information concerning currently outstanding and exercisable options at September 30, 1999:

OPTIONS OUTSTANDING			OPTIONS EXERCISABLE		
(Share amounts in thousands)			(Share amounts in thousands)		
RANGE OF EXERCISE PRICES	NUMBER OUTSTANDING	WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE	WEIGHTED AVERAGE EXERCISE PRICE	NUMBER EXERCISABLE	WEIGHTED AVERAGE EXERCISE PRICE
\$ 25.88	29	10	\$ 25.88	--	N/A

As permitted under Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123"), the Company has elected to follow Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25"), in accounting for stock options granted to employees. Under APB 25, the Company generally recognizes no compensation expense in the statements of operations with respect to such grants.

Unaudited pro forma information regarding net income (loss) and earnings (loss) per share is required by SFAS 123 for options granted after October 1, 1995 as if the Company had accounted for the stock option grants to employees under the fair value method of SFAS 123. The fair value of the Company's stock option grants to employees was estimated using a Black-Scholes option pricing model.

The following assumptions were employed to estimate the fair value of stock options granted to employees:

	FISCAL YEAR ENDED SEPTEMBER 30, 1999
Expected dividend yield	\$ --
Expected stock price volatility	74.00%
Risk-free interest rate	5.84%
Expected life (years)	8

For pro forma purposes, the estimated fair value of the Kulicke and Soffa Industries, Inc. stock options to employees is amortized over the options' vesting period. The Company's pro forma information follows:

	FISCAL YEAR ENDED SEPTEMBER 30, 1999
Weighted average fair value of options granted	\$ 19.92
Net loss - as reported	(14,583,149)
Net loss - unaudited pro forma	(14,583,743)

7. RELATED PARTY TRANSACTIONS

The Company incurred the following costs to Delco and K&S:

	1999	1998	1997
DELCO			
Salaries and burden	\$ --	\$ --	\$ 145,177
Royalty	270,000	--	--
Equipment cancellation fees	--	--	243,662
Engineering and development support	65,981	93,979	214,801
Materials, qualification and other costs	109,193	151,606	142,650
Manufacturing services	--	34,508	289,477
	-----	-----	-----
	\$445,174	\$280,093	\$1,035,767
	=====	=====	=====
K&S			
Marketing expenses	\$ 20,000	\$ --	\$ --
	=====	=====	=====

The Company had the following related party receivables and payables at September 30, 1999 and 1998:

	1999	1998
Sales to Delco	\$ --	\$ 72,144
Due from Delco	--	58,583
Due to Delco	312,118	--
Due to K&S	20,000	--

8. COMMITMENTS AND CONTINGENCIES

COMMITMENTS

In December 1996, the Company entered into an agreement to purchase water treatment services for its wafer processing facility. The term of the agreement is ten years from March 1997. The base water service fee is approximately \$35,000 per month, adjusted annually based on the producer price index-commodities for materials, supplies and labor.

The Company has a ten year agreement to purchase nitrogen through March 2007, and is renewable for an additional five years. The base facility charge is approximately \$15,000 per month, adjusted annually for increases in labor and utility costs.

Effective October 1996, the Company entered into a ten year agreement for information technology services. The agreement provides for the hardware, software and human resources to implement and support the information technology needs of the manufacturing facility. The current base charge is approximately \$110,000 per month, adjusted annually based on the consumer price index.

OPERATING LEASES

The Company has entered into a lease agreement to occupy its manufacturing and corporate headquarters facility. In addition, the Company leases manufacturing and other equipment. Operating lease expense for the periods ended September 30, 1999, 1998 and 1997 was approximately \$994,000, \$909,000 and \$612,000, respectively. At September 30, 1999, future minimum rental commitments under the noncancelable operating lease obligations are as follows:

YEAR ENDING SEPTEMBER 30,	
2000	\$ 744,983
2001	673,828
2002	553,629
2003	361,482
2004	372,326
Thereafter	778,498

Total future minimum lease payments	\$3,484,746
	=====

LITIGATION

In the normal course of its business, the Company is subject to certain contractual guarantees and litigation. In management's opinion, upon consultation with legal counsel, there is no current litigation which will have a material adverse effect on the Company's business, financial condition and operating results.

9. EMPLOYEE BENEFIT PLAN

Substantially all employees of the Company are covered by a qualified 401(k) plan. The plan is funded by voluntary employee contributions with the Company matching 50% of employee contributions up to 6% of employee contributions. For the years ended September 30, 1999, 1998 and 1997, the Company's matching contribution was approximately \$137,000, \$103,000 and \$53,000, respectively.

10. RESIZING

In April 1999, the Company executed a resizing plan to align its workforce with current market conditions and reduce costs. Under the plan, 21 employees were involuntarily terminated. Severance and benefits totaling \$475,000 were paid to the employees in the year ended September 30, 1999. No amounts remained accrued at September 30, 1999.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT.

Information required hereunder with respect to the directors will appear under the heading "ELECTION OF DIRECTORS" in the Company's Proxy Statement for the 2000 Annual Meeting, which information is incorporated herein by reference.

The information required by Item 401(b) of Regulation S-K appears at the end of Part I, Item 1 of this report under the heading "Executive Officers of the Company."

ITEM 11. EXECUTIVE COMPENSATION.

The information required hereunder will appear under the heading "ADDITIONAL INFORMATION" in the Company's Proxy Statement for the 2000 Annual Meeting, which information is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT.

The information required hereunder will appear under the heading "ELECTION OF DIRECTORS" in the Company's Proxy Statement for the 2000 Annual Meeting, which information is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

The information required hereunder will appear under the heading "ADDITIONAL INFORMATION" in the Company's Proxy Statement for the 2000 Annual Meeting, which information is incorporated herein by reference.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K.

(a) The following documents are filed as part of this report:

(1) (a) Financial Statements - Kulicke and Soffa Industries, Inc.:

Report of Independent Accountants	29
Consolidated Balance Sheet at September 30, 1999 and 1998	30
Consolidated Statement of Operations for the fiscal years ended September 30, 1999, 1998 and 1997	31
Consolidated Statement of Cash Flows for the fiscal years ended September 30, 1999, 1998 and 1997	32
Consolidated Statement of Changes in Shareholders' Equity for the fiscal years ended September 30, 1999, 1998 and 1997	33
Notes to Consolidated Financial Statements	34 - 50

(b) Financial Statements - Flip Chip Technologies, LLC:

Report of Independent Accountants	51
Report of Independent Public Accountants	52
Balance Sheets at September 30, 1999 and 1998	53
Statements of Operations for the years ended September 30, 1999, 1998 and 1997	54
Statements of Members' Equity for the years ended September 30, 1999, 1998 and 1997	55
Statements of Cash Flows for the years ended September 30, 1999, 1998 and 1997	56
Notes to Financial Statements	57 - 63

(2) Financial Statement Schedules:

II - Valuation and Qualifying Accounts	68
--	----

All other schedules are omitted because they are not applicable or the required information is shown in the financial statements or notes thereto.

(3) Exhibits:

EXHIBIT NUMBER	ITEM
2.1(a)	Agreement and Plan of Acquisition dated September 14, 1995, between the Company, Circle "S" Industries, Inc. and Certain Stockholders of Circle "S" Industries, Inc., filed as Exhibit 2.1(a) to the Company's Form 8-K dated October 2, 1995, is incorporated herein by reference.
2.1(b)	Agreement and Plan of Merger dated October 2, 1995, between the Company, Kulicke and Soffa Acquisition Corporation and Circle "S" Industries, Inc., filed as Exhibit 2.1(b) to the Company's Form 8-K dated October 2, 1995, is incorporated herein by reference.
2.1(c)	Escrow Agreement dated October 2, 1995, between the Company, Larry D. Striplin, Jr. and Mellon Bank, N.A., filed as Exhibit 2.1(c) to the Company's Form 8-K dated October 2, 1995, is incorporated herein by reference.

- 3(i) The Company's Amended and Restated Articles of Incorporation as of March 3, 1998, filed as Exhibit 3(i) to the Company's quarterly report on Form 10-Q for the quarterly period ended March 31, 1998 and Form of Amendment of Articles of Incorporation effective March 12, 1999, filed as Exhibit 3(i), to the Company's quarterly report on Form 10-Q for the quarterly period ended March 31, 1999, are incorporated herein by reference.
- 3(ii) The Company's By-Laws, as amended through June 26, 1990, filed as Exhibit 2.2 to the Company's Form 8-A12G dated September 8, 1995, is incorporated herein by reference.
- 4(i) Amended and Restated Loan Agreement between the Company and PNC Bank, N.A. dated March 26, 1998, filed as Exhibit 10(a) to the Company's quarterly report on Form 10-Q for the quarterly period ended March 31, 1998, is incorporated herein by reference.
- 4(ii) Indenture dated as of December 13, 1999 between the Company and Chase Manhattan Trust Company, National Association, as Trustee, filed as Exhibit 4.1 to the Company's Form 8-K dated December 13, 1999, is incorporated herein by reference.
- 4(iii) Registration Rights Agreement dated as of December 13, 1999 between the Company and Morgan Stanley & Co. Incorporated, filed as Exhibit 4.2 to the Company's Form 8-K dated December 13, 1999, is incorporated herein by reference.
- 10(i) Form of Termination of Employment Agreement signed by Mr. Kulicke (Section 2(a) - 30 months), and Messrs. Perchick, Sprague, Von Seggern, Jacobi, Wagner, DeSouza, Furhovden, Lendner, Leonhardt, May, Salmons, Sawachi, Spooner, Wolf, Belani, Chylak, Cristallo, Greenberger, Oscilowski and Torton (Section 2(a) - 18 months), filed as Exhibit 10(vii) to the Company's quarterly report on Form 10-Q for the quarterly period ended March 31, 1998, is incorporated herein by reference.*
- 10(ii) Agreement between the Company and Frederick W. Kulicke, Jr., filed as Exhibit 10(iii) to Company's Annual Report on Form 10-K for the year ended September 30, 1989, is incorporated herein by reference.*
- 10(iii) The Company's 1980 Employee Incentive Stock Option Plan, filed as Exhibit 10(iv) to the Company's Annual Report on Form 10-K for the year ended September 30, 1989, is incorporated herein by reference.*
- 10(iv) The Company's 1983 Employee Incentive Stock Option Plan, filed as Exhibit 10(v) to the Company's Annual Report on Form 10-K for the year ended September 30, 1989, is incorporated herein by reference.*
- 10(v) The Company's 1988 Employee Incentive Stock Option and Non-Qualified Stock Option Plan (as amended and restated effective October 8, 1996) filed as Exhibit 10(vi) to the Company's Annual Report on Form 10-K for the year ended September 30, 1996, is incorporated herein by reference.*
- 10(vi) The Company's 1988 Non-Qualified Stock Option Plan for Non-Officer Directors (as amended and restated effective February 9, 1999).*
- 10(vii) The Company's 1994 Employee Incentive Stock Option and Non-Qualified Stock Option Plan (as amended and restated effective October 8, 1996), filed as Exhibit 10(viii) to the Company's Annual Report on Form 10-K for the year ended September 30, 1996, is incorporated herein by reference.*
- 10(viii) The Company's 1997 Non-Qualified Stock Option Plan for Non-Employee Directors (as amended and restated effective February 9, 1999).*
- 10(ix) The Company's Executive Incentive Compensation Plan, As Amended Through October 14, 1997, filed as Exhibit 10(ix) to the Company's Annual Report on Form 10-K for the year ended September 30, 1997, is incorporated herein by reference.*

- 10(x) Gold Supply Agreement, as amended October 2, 1995 between American Fine Wire Corporation, et al, and Rothschild Australia Limited, filed as Exhibit 10.1 to the Company's Form 8-K dated September 14, 1995 as amended by Form 8-K/A on October 26, 1995, is incorporated herein by reference.
- 10(xi) Agreement of Employment between Circle "S" Industries, Inc. and Larry D. Striplin, Jr. dated January 2, 1990, filed as Exhibit 10 (xiii) to the Company's Annual Report on Form 10-K for the year ended September 30, 1995, is incorporated herein by reference.*
- 10(xii) Amendment No. 1 to Agreement of Employment between Circle "S" Industries, Inc. and Larry D. Striplin, Jr. dated May 1, 1995, filed as Exhibit 10 (xiv) to the Company's Annual Report on Form 10-K for the year ended September 30, 1995, is incorporated herein by reference.*
- 10(xiii) Agreement between Circle "S" Industries, Inc. and Larry D. Striplin, Jr. dated September 30, 1995, filed as Exhibit 10 (xv) to the Company's Annual Report on Form 10-K for the year ended September 30, 1995, is incorporated herein by reference.*
- 10(xiv) The Company's Executive Deferred Compensation Plan (As Amended and restated Effective October 1, 1999).*
- 10(xv) Operating Agreement of Flip Chip Technologies, LLC dated February 28, 1996, filed as Exhibit 10 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended December 31, 1996, is incorporated herein by reference.
- 10(xvi) Convertible Loan Agreements between the Company, Flip Chip Technologies, LLC and Delco Electronics Corporation dated June 16, 1997, October 30, 1997, February 18, 1998 and November 19, 1998 filed as Exhibit 10(xviii) to the Company's Annual Report on Form 10-K for the year ended September 30, 1998, is incorporated herein by reference.
- 10(xvii) The Company's 1998 Employee Incentive Stock Option and Non-Qualified Stock Option Plan filed as Exhibit 10(a) to the Company's quarterly report on Form 10-Q for the quarterly period ended March 31, 1999, is incorporated herein by reference.*
- 10(xiii) Amendment No. 1 to the Company's 1998 Employee Incentive Stock Option and Non-Qualified Stock Option Plan.*
- 10(xix) Amendment No. 1 to the Company's 1994 Employee Incentive Stock Option and Non-Qualified Stock Option Plan (as amended and restated effective October 8, 1996).*
- 10(xx) Amendment No. 1 to the Company's 1988 Employee Incentive Stock Option and Non-Qualified Stock Option Plan (as amended and restated effective October 8, 1996).*
- 21 Subsidiaries of the Company.
- 23.1 Consent of PricewaterhouseCoopers LLP (Independent Accountants).
- 23.2 Consent of PricewaterhouseCoopers LLP (Independent Accountants).
- 23.3 Consent of Arthur Andersen LLP (Independent Public Accountants).
- 27 Financial Data Schedule.
- * Indicates a Management Contract or Compensatory Plan.
- (b) Reports on Form 8-K:
None

KULICKE AND SOFFA INDUSTRIES, INC.
SCHEDULE II-VALUATION AND QUALIFYING ACCOUNTS
(IN THOUSANDS)

Description	Balance at beginning of period	Charged to costs and expenses	Charged to other accounts- describe	Deductions- describe	Balance at end of period
Year ended September 30, 1997					
Allowance for doubtful accounts	\$ 1,227	\$ 1,065	\$ --	\$ 143 (1)	\$ 2,149
Inventory reserve	\$ 11,755	\$ 2,593	\$ --	\$ 1,503 (2)	\$ 12,845
Valuation allowance for deferred taxes	\$ 5,115	\$ 623 (3)	\$ --	\$ 1,084 (4)	\$ 4,654
Year ended September 30, 1998					
Allowance for doubtful accounts	\$ 2,149	\$ 29	\$ --	\$ 501 (1)	\$ 1,677
Inventory reserve	\$ 12,845	\$ 4,132	\$ --	\$ 1,319 (2)	\$ 15,658
Valuation allowance for deferred taxes	\$ 4,654	\$ 2,437 (5)	\$ --	\$ --	\$ 7,091
YEAR ENDED SEPTEMBER 30, 1999					
ALLOWANCE FOR DOUBTFUL ACCOUNTS	\$ 1,677	\$ 812	\$ --	\$ 762 (1)	\$ 1,727
INVENTORY RESERVE	\$ 15,658	\$ 1,200	\$ --	\$ 1,930 (2)	\$ 14,928
VALUATION ALLOWANCE FOR DEFERRED TAXES	\$ 7,091	\$ 5,124 (5)	\$ --	\$ --	\$ 12,215

- (1) Bad debts written off.
- (2) Disposal of excess and obsolete inventory.
- (3) Reflects the increase in the valuation allowance associated with net operating losses of the Company's Japanese subsidiary.
- (4) Reversal of the valuation allowance related to US tax credits.
- (5) Reflects the increase in the valuation allowance associated with net operating losses of the Company's Japanese subsidiary plus an increase in the valuation allowance related to US tax credits.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

KULICKE and SOFFA INDUSTRIES, INC.

By: /s/ C. SCOTT KULICKE

 C. Scott Kulicke
 Chairman of the Board and
 Chief Executive Officer

Dated: December 20, 1999

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, this Report has been signed by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signature	Title	Date
-----	-----	-----
/s/ C. SCOTT KULICKE ----- C. Scott Kulicke (Principal Executive Officer)	Chairman of the Board and Director	December 20, 1999
/s/ CLIFFORD G. SPRAGUE ----- Clifford G. Sprague (Principal Financial Officer)	Senior Vice President and Chief Financial Officer	December 20, 1999
/s/ JAMES W. BAGLEY ----- James W. Bagley	Director	December 20, 1999
/s/ FREDERICK W. KULICKE, JR. ----- Frederick W. Kulicke, Jr.	Director	December 20, 1999
/s/ JOHN A. O'STEEN ----- John A. O'Steen	Director	December 20, 1999
/s/ ALLISON F. PAGE ----- Allison F. Page	Director	December 20, 1999
/s/ MACDONELL ROEHM, JR. ----- MacDonell Roehm, Jr.	Director	December 20, 1999
/s/ LARRY D. STRIPLIN, JR. ----- Larry D. Striplin, Jr.	Director	December 20, 1999
/s/ C. WILLIAM ZADEL ----- C. William Zadel	Director	December 20, 1999

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EXHIBIT INDEX

EXHIBIT NUMBER	ITEM
10(vi)	The Company's 1988 Non-Qualified Stock Option Plan for Non-Officer Directors (as amended and restated effective February 9, 1999).*
10(viii)	The Company's 1997 Non-Qualified Stock Option Plan for Non-Employee Directors (as amended and restated effective February 9, 1999).*
10(xiv)	The Company's Executive Deferred Compensation Plan (As Amended and restated Effective October 1, 1999).*
10(xiii)	Amendment No. 1 to the Company's 1998 Employee Incentive Stock Option and Non-Qualified Stock Option Plan.*
10(xix)	Amendment No. 1 to the Company's 1994 Employee Incentive Stock Option and Non-Qualified Stock Option Plan (as amended and restated effective October 8, 1996).*
10(xx)	Amendment No. 1 to the Company's 1988 Employee Incentive Stock Option and Non-Qualified Stock Option Plan (as amended and restated effective October 8, 1996).*
21	Subsidiaries of the Company.
23.1	Consent of PricewaterhouseCoopers LLP (Independent Accountants).
23.2	Consent of PricewaterhouseCoopers LLP (Independent Accountants).
23.3	Consent of Arthur Andersen LLP (Independent Public Accountants).
27	Financial Data Schedule.

KULICKE AND SOFFA INDUSTRIES, INC.
 1988 NON-QUALIFIED STOCK OPTION PLAN
 FOR NON-OFFICER DIRECTORS
 (As Amended and Restated Effective February 9, 1999)

1. Purpose

The purpose of the 1988 Non-Qualified Stock Option Plan for Non-Officer Directors (the "Plan") of Kulicke and Soffa Industries, Inc. (the "Company") is to encourage stock ownership by non-officer members of the Board of Directors (the "Board") (as more fully described in Section 3, below) of the Company by issuing options to purchase shares of the Company's stock ("Options," and individually an "Option") thereby enabling such Board members to acquire or increase their proprietary interests in the Company and thereby encouraging them to remain as Board members. The Options issued pursuant to the Plan are intended to constitute non-qualified stock options ("Non-Qualified Stock Options").

2. Administration

The Plan will be administered by a Committee of the Board (the "Committee") appointed by the Board of the Company. The Committee will consist of two or more directors who are not eligible to be granted Options under this Plan and who will serve at the pleasure of the Board. The Committee will hold meetings when a quorum is present at such times and places as it may determine. A quorum shall consist of a majority of the Committee. A majority of the Committee present and voting at a meeting at which a quorum is present, or acts reduced to and approved in writing by a majority of the members of the Committee at any other time, will be valid acts of the Committee. No director while a member of the Committee will be eligible to receive an Option under this Plan. The Committee shall have no discretion with respect to the eligibility or selection of non-officer members of the Board to receive Options under the Plan, the number of shares of stock subject to any such Options, or the purchase price thereunder.

The interpretation and construction by the Committee of any provision of the Plan or of any Option granted under it will be final. Anything herein to the contrary notwithstanding, no member of the Board or the Committee will be liable for any action or determination made in good faith with respect to the Plan or any Option granted under it.

3. Eligibility

The only persons eligible to receive Options under the Plan shall be each member of the Board who is not also an employee or officer of the Company. An eligible director who is granted an Option ("Optionee," which term shall also include his legal representative under Section 5(f) hereof) may be granted more than one Option.

4. Stock

The stock subject to the Options will be shares of the Company's authorized but unissued or reacquired Common Stock, without par value (the "Shares"). Options shall not be issued with respect to more than 200,000 Shares, subject, however, to adjustment as provided in Section 5(g) hereof. As used herein and in Section 7, Options that have expired or terminated shall not be deemed to have been issued or granted for purposes of computing numerical limitations on the granting of Options.

1

5. Terms and Conditions of Options

Each Option granted pursuant to the Plan will be evidenced by an Option Notice in such form as is acceptable to the Committee. Each Option Notice will include the information required by Subsections (a) and (b) of this Section 5 and will be in conformity with and incorporate by reference all other terms and conditions of the Plan, including the following terms and conditions:

- (a) Option Grant Dates. Options to purchase 2,500 Shares (as adjusted pursuant to Section 5(g)) shall be granted automatically to each eligible director on the last day of February on which the Company's shares are publicly traded in each of the years 1990 through 1998.
- (b) Option Price. The purchase price per Share payable upon exercise of the Options shall be 100% of the fair market value per Share on the date the Options are granted, which shall be the representative closing prices on such date of the Shares as reported by NASDAQ.
- (c) Payment. The price payable on the exercise of the Option in whole or in part will be equal to the Option price multiplied by the number of Shares as to which the Option is exercised, and shall be paid in full upon exercise of any Option, either in cash or by delivering to the Company shares of the Company's Common Stock having a fair market value, as of the close of business on the day preceding such delivery, equal to the aggregate exercise price of the Shares being purchased on exercise of the Options, or by a combination of such cash and shares.

- (d) Notwithstanding any other provisions of this Plan:
- (i) No Option shall be granted under this Plan after ten years and one month from the date this Plan becomes effective according to Section 10, below.
 - (ii) No Option granted under this Plan shall be exercisable after ten years and one month from the date of its grant.
- (e) Term and Exercise of Options. Subject to the provisions of Section 5(d) (i) and (ii) hereof, Options granted hereunder shall become exercisable in 20% annual increments commencing on the first anniversary of the date they are granted.

Options that have become exercisable may be exercised in whole or in part, except that no Option may be exercised unless the total number of Shares issuable upon exercise of such Option and all other Options being exercised simultaneously is at least 25 or unless the number of Shares purchased is the total number remaining unpurchased under the Option.

Unless sooner terminated as provided in this Plan, Options shall expire after the termination of ten years and one month from the date of the grant and shall be void and unexercisable thereafter. Options may be exercised only by the Optionee and may not be exercised by any other person except as provided in Section 5(f) hereof.

- (f) Termination of Options. Upon the death of an Optionee, except upon death during pendency of proceedings as described in the fourth paragraph of this Subsection (f), all Options held by such Optionee, whether or not then exercisable, shall immediately become exercisable and remain exercisable by his executor(s) or administrator(s) for a period of one year from the date of such Optionee's death.

Upon notice to an Optionee that proceedings (including the call of a meeting) are to be instituted for the purpose of the removal of the Optionee from the Board of the Company for cause, the right of such Optionee to exercise any Options under the Plan shall be suspended until final disposition of such proceedings. If such proceedings result in a removal of such Optionee for cause, the Options will be deemed to have terminated on

the date of notice to such Optionee that such proceedings were to be instituted.

If, during the pendency of such proceedings, the Optionee dies or ceases to be a member of the Board for any reason other than removal for cause, the Committee shall determine whether there existed cause for such director's removal. If the Committee determines that cause for removal existed, the Optionee's Options shall be deemed to have terminated on the date of notice to such Optionee that such proceedings were to be instituted. If the Committee determines that cause for removal did not exist, the Options shall be reinstated and the original expiration date of such Options shall be extended by such period, not less than six months nor more than the period during which the exercise rights were suspended, as the Committee may determine.

If an Optionee has died during the suspension of the right to exercise any Option and such Option is reinstated, the date of the determination reinstating such Option will be deemed to be the date of such Optionee's death for the purposes of this Plan.

If such proceedings result in a final determination that such Optionee is not subject to removal for cause, the Options shall be reinstated and the original expiration date of such Options shall be extended by such period, not less than six months nor more than the period during which the exercise rights were suspended, as the Committee should determine.

Options may be terminated by agreement between the Company and the Optionee.

For the purposes of this Plan, termination and removal for cause shall include termination and removal by reason of any dishonest or illegal act, or any willful refusal or failure to perform duties properly assigned.

- (g) Recapitalization. Subject to any required action by the stockholders of the Company, if any, the number of Shares as to which options may be granted under this Plan and the number of Shares subject to outstanding Options and the Option price thereof will be proportionately adjusted for any increase or decrease in the number of outstanding Shares of Common Stock of the Company resulting from stock splits or reverse stock splits but not for stock dividends. The number of Shares will be adjusted to the nearest whole share. Any stock dividend resulting in an increase of 20% or more in the outstanding Common Stock shall be deemed a stock split.

If the Company is a party to any merger, consolidation or dissolution (other than the merger or consolidation of the Company with one or more of its wholly-owned subsidiaries), all Options outstanding hereunder shall terminate, in the case of mergers or consolidation, on the date that such merger or consolidation becomes effective, and in case of dissolution, on the date that the Articles of Election to Dissolve are filed with the Secretary of the Commonwealth of Pennsylvania. If Options are terminated and cancelled pursuant to the provisions of the foregoing sentence, Optionees shall receive in cash from the Company an amount equal to the fair market value of the Shares which are subject to then exercisable Options, determined as of the close of business on the day preceding the event canceling all outstanding Options under this Plan, less the amount which would be required to exercise the then exercisable Options. Optionees shall have no rights to compensation or other consideration with respect to the cancellation of Options not subject to exercise on the date of cancellation.

Except as expressly provided above in this Section 5(g), the Optionee will have no rights by reason of any subdivision or consolidation of shares of stock of any class of the Company or the payment of any stock dividend by the Company or any other increase or decrease in the number of shares of stock of any class of the Company or by reason of any dissolution, liquidation, merger or consolidation or spin-off of assets or stock of another corporation.

The grant or existence of any Option shall not affect in any way the right or power of the Company to make adjustments, reclassifications, reorganizations or changes of its capital or business structure or to merge or to consolidate or to dissolve, liquidate or sell, or transfer all or part of its stock or assets.

- (h) Rights as a Stockholder. The Optionee will have no rights as a stockholder of the Company with respect to any Shares subject to the Option until the Option has been exercised and a certificate with respect to the Shares purchased upon exercise has been issued to him. No adjustment will be made for dividends (ordinary or extraordinary, whether in cash, securities or other property) or distributions or other rights for which the record date is prior to the date the Shares so purchased have been issued.
- (i) Modification, Extension and Renewal of Option. Subject to the terms and conditions of the Plan, the Committee may modify the Options or accept the surrender of Options (to the extent not theretofore exercised); provided, however, that the Committee may not modify the terms upon which, the times at which or the periods within which Options may be exercised. Notwithstanding the foregoing sentence, no modification of any Option which adversely affects the Optionee shall be made without the consent of the Optionee. Further, notwithstanding any provision of this Plan to the contrary (other than Section 5(g)), the option price of an outstanding Option shall not, without the prior approval of the Company's stockholders, be reduced, whether through amendment, cancellation, replacement grants, or other similar means.
- (j) Purchase for Investment. The issuance of Shares on exercise of the Option will be conditioned on obtaining appropriate representations and warranties of the Optionee that the purchase of Shares thereunder will be for investment, and not with a view to the public resale or distribution thereof, unless the Shares subject to the Option are registered under the Securities Act of 1933, as amended (the "Act"), and comply with any other law, regulation or rule applicable thereto. Unless the Shares are registered under the Act, the Optionee shall acknowledge that the Shares purchased on exercise of the Option are not registered under the Act and may not be sold or otherwise transferred unless the Shares have been registered under the Act in connection with the sale or other transfer or counsel satisfactory to the Company is of the opinion that the sale or other transfer is exempt from registration under the Act, and unless said sale or transfer is in compliance with any other applicable law, including all applicable state securities laws.
- (k) No Rights to Board Membership. Individuals granted Options under this Plan shall not have any right to continue as a member of the Board of the Company solely by virtue of the existence of such Options. Individuals holding Options whose Board membership is terminated shall have no rights against the Company by reason of the termination of such Options whether the termination be with or without cause.
- (l) Other Provisions. The Option Notice may contain such other provisions, including, without limitation, restrictions upon the exercise of the Option, as the Committee in its discretion deems advisable and as are not inconsistent with the provisions of this Plan.

6. Term of Plan.

The Plan shall terminate ten years and one month from the date the Plan is effective as described in Section 10, below.

7. Amendment of the Plan.

The Board may, insofar as permitted by law and the Plan, from time to time, with respect to any Shares at the time not subject to an Option, suspend or discontinue the Plan or revise or amend it in any respect whatsoever, except that the Plan may not be amended more than once every six months unless such an amendment is necessary to make the Plan comply with changes to the Internal Revenue Code, the Employee Retirement Income Security Act, or the rules thereunder; provided, however, that without approval of the Company's shareholders, no such revision or amendment may change the number of Shares, change the designation of the class of individuals eligible to receive Options, change the provisions of Section 5(a), change the terms upon which, the times at which or the periods within which Options may be acquired or exercised, remove the administration of the Plan from the Committee, or render any member of the Committee eligible to receive an Option under the Plan while serving thereon.

8. Application of Funds.

The proceeds received by the Company from the sale of Shares pursuant to the exercise of Options will be used for general purposes.

9. No Obligation to Exercise Option.

The granting of an Option will impose no obligation upon the Optionee to exercise such Option.

10. Approval of Stockholders.

This Plan shall become effective on the date that it is adopted by the Board, provided, however, that it shall become null and void if it is not approved by a majority of the holders of the Company's Common Stock present in person or by proxy at a meeting of the shareholders held within one year (365 days) of its adoption by the Board. The Board may grant Options hereunder prior to approval of the Plan by the holders of such a majority of the Common Stock, provided, however, that no Option so granted shall be exercisable within 365 days of the date of the adoption of the Plan and all Options so granted shall terminate and become null and void if the Plan is not approved by the holders of a majority of the Company's Common Stock present in person or by proxy at a meeting of the shareholders held within 365 days of its adoption by the Board.

Date Plan Adopted by Board of Directors: June 28, 1988.

Date Plan Approved by Shareholders: February 14, 1989.

Dates Plan Amended by Board of Directors: August 15, 1989; April 1, 1992; October 11, 1994; and February 9, 1999.

KULICKE AND SOFFA INDUSTRIES, INC.
1997 NON-QUALIFIED STOCK OPTION PLAN
FOR NON-EMPLOYEE DIRECTORS
(As Amended and Restated Effective February 9, 1999)

1. Purpose

The purpose of the 1997 Non-Qualified Stock Option Plan for Non-Employee Directors (the "Plan") of Kulicke and Soffa Industries, Inc. (the "Company") is to encourage stock ownership by non-employee members of the Company's Board of Directors (the "Board") by issuing options to purchase shares of the Company's stock ("Options," and individually an "Option"), thereby enabling such Board members to acquire or increase their proprietary interests in the Company and thereby encouraging them to remain as Board members. The Options issued pursuant to the Plan are intended to constitute non-qualified stock options ("Non-Qualified Stock Options").

2. Administration

The Plan will be administered by the Company's Compensation Committee (the "Committee"), which shall consist of two or more non-employee directors (as defined in Rule 16b-3(b)(3) promulgated under the Securities Exchange Act of 1934, as amended (the "1934 Act"), or any successor thereto) who will be appointed by, and will serve at the pleasure of, the Board. If a Committee of two or more non-employee directors has not been appointed, the Plan will be administered by the full Board. The Committee will hold meetings when a quorum is present at such times and places as it may determine. A quorum shall consist of a majority of the Committee. A majority of the Committee present and voting at a meeting at which a quorum is present, or acts reduced to, and approved in, writing by a majority of the members of the Committee at any other time, will be valid acts of the Committee. The Committee shall have no discretion with respect to the eligibility or selection of non-officer members of the Board to receive Options under the Plan, the number of shares of stock subject to any such Options, or the purchase price thereunder.

The interpretation and construction by the Committee of any provision of the Plan or of any Option granted under it will be final. Anything herein to the contrary notwithstanding, no member of the Board or the Committee will be liable for any action or determination made in good faith with respect to the Plan or any Option granted under it.

3. Eligibility

The only persons eligible to receive Options under the Plan shall be each member of the Board who is not also an employee of the Company. An eligible director who is granted an Option ("Optionee," which term shall also include his executor(s) or administrator(s) under Section 5(f) hereof) may be granted more than one Option.

4. Stock

The number of shares of common stock of the Company, no par value (the "Shares"), that may be subject to Options under the Plan shall be 400,000 Shares, subject to adjustment as hereinafter provided. Shares issuable under the Plan may be authorized but unissued Shares or reacquired Shares, as the Company may determine from time to time. In addition, any Shares subject to an Option which expires or otherwise terminates for any reason whatever (including, without limitation, the Optionee's surrender thereof) without having been exercised shall continue to be available for the granting of Options under the Plan.

5. Terms and Conditions of Options

Each Option granted pursuant to the Plan will be evidenced by an Option Notice in such form as is acceptable to the Committee. Each Option Notice will include the information required by Subsections (a) and (b) of this Section 5 and will be in conformity with and incorporate by reference all other terms and conditions of the Plan, including the following terms and conditions:

(a) Option Grant Dates. Options to purchase 5,000 Shares (as adjusted pursuant to Section 5(g)) shall be granted automatically to each eligible director on the last day of February on which the Company's shares are publicly traded in each of the years 1999 through 2008.

(b) Option Price. The purchase price per Share payable upon exercise of the Options shall be 100% of the fair market value per Share on the date the Options are granted, which shall be the representative closing price on such date of the Shares as reported by Nasdaq.

(c) Payment. The price payable on the exercise of the Option in whole or in part will be equal to the Option price multiplied by the number of Shares as to which the Option is exercised, and shall be paid in full upon exercise of any Option, either in cash or by delivering to the Company shares of the Company's Common Stock having a fair market value, as of the close of

business on the day preceding such delivery, equal to the aggregate exercise price of the Shares being purchased on exercise of the Options, or by a combination of such cash and shares.

(d) Option Term. Notwithstanding any other provisions of this Plan, Options shall expire after the termination of ten years and one month from the date of the grant, unless sooner terminated as provided in this Plan, and shall be void and unexercisable thereafter.

(e) Exercisability of Options. Options granted hereunder shall become exercisable in 20% annual increments commencing on the first anniversary of the date they are granted.

Options that have become exercisable may be exercised in whole or in part, except that no Option may be exercised unless the total number of Shares issuable upon exercise of such Option and all other Options being exercised simultaneously is at least 25 or unless the number of Shares purchased is the total number remaining unpurchased under the Option.

Options may be exercised only by the Optionee and may not be exercised by any other person except as provided in Section 5(f) hereof.

(f) Termination of Options. Subject to Section 5(d) above and to Section 5(g) below, upon the death of an Optionee, all Options held by such Optionee, whether or not then exercisable, shall immediately become exercisable and remain exercisable by his executor(s) or administrator(s) for a period of one year from the date of such Optionee's death.

Options may be terminated by agreement between the Company and the Optionee.

(g) Recapitalization. Subject to any required action by the stockholders of the Company, the number of Shares as to which Options may be granted under this Plan and the number of Shares subject to outstanding Options and the Option price thereof will be proportionately adjusted for any increase or decrease in the number of outstanding Shares of Common Stock of the Company resulting from stock splits or reverse stock splits but not for stock dividends. The number of Shares will be adjusted to the nearest whole share. Any stock dividend resulting in an increase of 20% or more in the outstanding Common Stock shall be deemed a stock split.

If the Company is involved in any merger or consolidation (as described below) or dissolution, all Options outstanding hereunder shall become fully vested and shall terminate, in the case of mergers

or consolidation, on the date that such merger or consolidation becomes effective, and in case of dissolution, on the date that the Articles of Dissolution are filed with the Secretary of the Commonwealth of Pennsylvania. A merger or consolidation shall be deemed to be covered by this Section 5(g) only if it results in the shareholders of the Company immediately before such merger or consolidation not owning, directly or indirectly, immediately following such merger or consolidation more than 50% of the combined voting power of the outstanding voting securities ("Voting Securities") of the corporation resulting from such merger or consolidation, in substantially the same proportion as their ownership of the Voting Securities outstanding immediately before such merger or consolidation.

If Options become fully vested and are terminated pursuant to the provisions of the foregoing paragraph, Optionees shall receive in cash from the Company an amount equal to the fair market value of the Shares which are subject to the outstanding Options on the date such Options become fully vested (and subsequently terminate), less the purchase price under such Options of such Shares. Fair market value shall be determined as of the close of business on the day preceding the event terminating all outstanding Options under this Plan.

Except as expressly provided above in this Section 5(g), the Optionee will have no rights by reason of any subdivision or consolidation of shares of stock of any class of the Company or the payment of any stock dividend by the Company or any other increase or decrease in the number of shares of stock of any class of the Company or by reason of any dissolution, liquidation, merger, or consolidation or spinoff of assets or stock of another corporation.

The grant or existence of any Option shall not affect in any way the right or power of the Company to make adjustments, reclassification, reorganizations or changes of its capital or business structure or to merge or to consolidate or to dissolve, liquidate or sell, or transfer all or part of its stock or assets.

(h) Rights as a Stockholder. The Optionee will have no rights as a stockholder of the Company with respect to any Shares subject to the Option until the Option has been exercised and a certificate with respect to the Shares purchased upon exercise has been issued to him. No adjustment will be made for dividends (ordinary or extraordinary, whether in cash, securities or other property) or distributions or other rights for which the record date is prior to the date the Shares so purchased have been issued.

(i) Modification of Options. Insofar as is consistent with the treatment of the Plan as a "formula plan" under Rule 16b-3 promulgated under ss.16(b) of the 1934 Act, or any successor thereto, and subject to the terms and conditions of the Plan, the Committee may modify the Options or accept the surrender of Options (to the extent not theretofore exercised); provided, however, that the Committee may not modify the terms upon which, the times at which or the periods within which Options may be exercised. Notwithstanding the foregoing sentence, no modification of any Option which adversely affects the Optionee shall be made without the consent of the Optionee. Further, notwithstanding any provision of this Plan to the contrary (other than Section 5(g)), the Option price of an outstanding Option shall not, without the prior approval of the Company's stockholders, be reduced, whether through amendment, cancellation, replacement grants, or other similar means; provided, however, that this shall not preclude the grant, in accordance with the provisions of this Plan, of additional Options: (i) not in replacement, in whole or in part, of cancelled Options, or (ii) following expiration of Options.

(j) Purchase for Investment. The issuance of Shares on exercise of the Option will be conditioned on obtaining appropriate representations and warranties of the Optionee that the purchase of Shares thereunder will be for investment, and not with a view to the public resale or distribution thereof, unless the Shares subject to the Option are registered under the Securities Act of 1933, as amended (the "1933 Act"), and comply with any other law, regulation or rule applicable thereto. Unless the Shares are registered under the 1933 Act, the Optionee shall acknowledge that the Shares purchased on exercise of the Option are not registered under the 1933 Act and may not be sold or otherwise transferred unless the Shares have been registered under the 1933 Act in connection with the sale or other transfer or counsel satisfactory to the Company is of the opinion that the sale or other transfer is exempt from registration under the 1933 Act, and unless said sale or transfer is in

compliance with any other applicable law, including all applicable state securities law.

(k) No Rights to Board Membership. An individual granted an Option under this Plan shall not have any right to continue as a member of the Board of the Company solely by virtue of the existence of such Option.

(l) Other Provisions. The Option Notice may contain such other provisions, including, without limitation, restrictions upon the exercise of the Option, as the Committee in its discretion deems advisable and as are not inconsistent with (i) the provisions of this Plan or (ii) the treatment of this Plan as a "formula plan" under Rule 16b-3 promulgated under ss.16(b) of the 1934 Act, or any successor thereto.

6. Term of Plan.

The Plan shall terminate on March 1, 2008. No Option shall be granted under this Plan after February 29, 2008. However, the termination of this Plan shall not affect any option which is outstanding on March 1, 2008.

7. Amendment of the Plan.

Insofar as is consistent with the treatment of the Plan as a "formula plan" under Rule 16b-3 promulgated under ss.16(b) of the 1934 Act, or any successor thereto, the Board may, from time to time, with respect to any Shares at the time not subject to an Option, suspend or discontinue the Plan or revise or amend it in any respect whatsoever.

8. Application of Funds.

The proceeds received by the Company from the sale of Shares pursuant to the exercise of Options will be used for general purposes.

9. No Obligation to Exercise Option.

The granting of an Option will impose no obligation upon the Optionee to exercise such Option.

10. Approval of Stockholders.

The Plan shall be effective December 9, 1997, the date it was adopted by the Board. The Plan was approved by the Company's shareholders on February 10, 1998.

KULICKE & SOFFA INDUSTRIES INC.

EXECUTIVE DEFERRED COMPENSATION PLAN

(AS AMENDED AND RESTATED EFFECTIVE OCTOBER 1, 1999)

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KULICKE & SOFFA INDUSTRIES INC.
EXECUTIVE DEFERRED COMPENSATION PLAN

WHEREAS, Kulicke & Soffa Industries Inc. (the "Company") established the Kulicke & Soffa Industries Inc. Officers' Deferred Compensation Plan (the "Plan") effective October 1, 1994, for the benefit of its eligible officers;

WHEREAS, in Section 8.1 of the Plan, the Company reserved the right to amend the Plan at any time, subject to certain inapplicable limitations; and

WHEREAS, the Company desires to amend the Plan to (i) incorporate Amendment No. 1 to the Plan; (ii) expand coverage to employees of the Company and its participating affiliates who are classified as "Directors"; (iii) change the name of the Plan to the "Kulicke & Soffa Industries Inc. Executive Deferred Compensation Plan"; (iv) expand participants' investment options under the Plan; and (v) to make certain other changes.

NOW, THEREFORE, effective October 1, 1999 (except where other effective dates are specifically provided), the Plan is hereby amended and restated as follows:

ARTICLE 1

DEFINITIONS

- 1.1 Account means a recordkeeping source by which Plan benefits are measured, consisting of the Participant's Deferral Allocations adjusted to reflect the investment return thereon provided for in Section 4.5. The specific Accounts under this Plan are listed in Section 4.1.
- 1.2 Base Compensation means an Eligible Employee's base salary,
- A. including Deferral Contributions made hereunder the source of which is Base Compensation and any pretax elective deferrals to any Employer-sponsored plan which includes either a qualified cash or deferred arrangement under Section 401(k) of the Code or a cafeteria plan under section 125 of the Code; and
- B. excluding Incentive Compensation, stock options, stock purchase plan benefits, Deferral Contributions the source of which is Incentive Compensation and all other forms of remuneration or reimbursement.
- 1.3 Beneficiary means the person, persons, trust or other entity a Participant designates by written revocable designation filed with the Plan Administrator to receive payments in the event of his or her death.
- 1.4 Board of Directors means the Board of Directors of K&S.
- 1.5 Change in Control means the occurrence of either of the following events:
- A. An acquisition (other than directly from K&S) of any voting securities of K&S ("Voting Securities") by any "Person" (as such term is used for purposes of Section 13(d) or 14(d) of the Securities Exchange Act of 1934, as amended (the "1934 Act")) immediately after which such Person has "Beneficial Ownership" (within the meaning of Rule 13d-3 promulgated under the 1934 Act) of 50% or more of the combined voting power of all then outstanding Voting Securities, provided, however, that any such acquisition approved by two-thirds of the Continuing Directors (as hereinafter defined) shall not be deemed to be a Change in Control.
- B. The individuals who, as of October 11, 1994, are members of the Board of Directors (the "Incumbent Board") cease for any reason to constitute at least two-thirds of the Board of Directors; provided, however, that if the election, or nomination for election by the shareholders, of any new director was approved by a vote of at least

two-thirds of the members of the Board of Directors who constitute Incumbent Board members, such new directors shall for all purposes be considered as members of the Incumbent Board as of October 11, 1994; provided further, however, that no individual shall be considered a member of the Incumbent Board if such individual initially assumed office as a result of either an actual or threatened "Election Contest" (as described in Rule 14a-11 promulgated under the 1934 Act) or other actual or threatened solicitation of proxies or consents by or on behalf of a Person other than the Board of Directors (a "Proxy Contest") including by reason of any agreement intended to avoid or settle any Election Contest or Proxy Contest.

- 1.6 Code means the Internal Revenue Code of 1986, as amended, and the same as may be amended from time to time.
- 1.7 Compensation means the sum of the Participant's
- A. Base Compensation; and
 - B. Incentive Compensation.
- 1.8 Deferral Agreement means a written agreement between a Participant and the Employer whereby a Participant agrees to defer a portion of his or her Compensation and the Employer agrees to provide Plan benefits.
- 1.9 Deferral Allocations means the elective deferrals described in Section 3.1.
- 1.10 Determination Date means such date or dates as may be selected by the Plan Administrator including March 31, June 30, September 30 and December 31 of each calendar year and, for each Participant, his or her date of death, Retirement, Disability or other termination of employment.
- 1.11 Disability means an illness or injury which entitles the Participant to receive a benefit under the Employer's long-term disability plan. In the event that no such plan is in effect, "Disability" shall mean an illness or injury which, in the sole discretion of the Plan Administrator, will prevent the individual from performing the duties of his or her position.
- 1.12 Effective Date of this amendment and restatement of the Plan means October 1, 1999, unless otherwise indicated. The original effective date of the Plan was October 1, 1994.
- 1.13 Eligible Dependent means an individual who is a child, stepchild, grandchild, niece or nephew, or who is otherwise identified as a dependent of a Participant for purposes of the Code who is living at any time throughout the Enrollment Period and who is either younger than age 15 or younger than age 18 but for whom a subaccount was initially established pursuant to Section 4.4 prior to his or her attaining age 15.
- 1.14 Eligible Employee means (i) an elected officer of the Employer who is paid on a United States payroll; or (ii) an employee of the Employer who is classified as a "Director" and who is paid on a United States payroll.
- 1.15 Employer means K&S and any successor thereto, and for purposes of determining eligibility to participate in the Plan, any affiliated company which is a member of a controlled group of corporations within the meaning of section 1563(a) of the Code with K&S which adopts this Plan with consent of K&S.
- 1.16 Enrollment Period means the 30-day period which ends prior to the first day of a Plan Year and, with respect to an executive who becomes eligible for participation effective as of any date other than the first day of a Plan Year, the 30-day period immediately following the date on which he or she becomes an Eligible Employee.
- 1.17 Incentive Compensation means any cash remuneration paid to an Eligible Employee, excluding Base Compensation, as a specific incentive or award, including Deferral Contributions the source of which is Incentive Compensation.

- 1.18 K&S means Kulicke & Soffa Industries Inc., a Pennsylvania corporation.
- 1.19 Participant means any Eligible Employee who has elected to participate in the Plan.
- 1.20 Plan means the Kulicke & Soffa Industries Inc. Executive Deferred Compensation Plan (formerly the Kulicke & Soffa Industries Inc. Officers' Deferred Compensation Plan), as amended and restated in this instrument, and the same as may be amended from time to time.
- 1.21 Plan Administrator means the Compensation Committee of the Board of Directors.
- 1.22 Plan Year means each twelve-consecutive month period beginning on October 1 and ending on the following September 30. The first Plan Year shall be October 1, 1994 through September 30, 1995.
- 1.23 Retirement means a Participant's severance from service after attaining age 55.
- 1.24 Special Circumstance means, effective September 18, 1998, the reporting by K&S of consolidated losses equal to or in excess of \$50,000,000, over a measuring period not exceeding two fiscal years of K&S (beginning with a fiscal year in which a loss for the year is reported). A Special Circumstance shall be deemed to occur on the date on which K&S makes an announcement of quarterly or annual earnings showing consolidated losses, which together with losses reported previously during the measuring period, equal or exceed such \$50,000,000 amount.

ARTICLE 2

PARTICIPATION IN THE PLAN

- 2.1 Plan Participation. Any Eligible Employee may become a Participant as soon as administratively possible following his or her qualification as an Eligible Employee.
- 2.2 Procedure For and Effect of Election to Participate. Each Eligible Employee who desires to participate in this Plan shall complete such forms and provide such data as are reasonably required by the Employer during the applicable Enrollment Period. By becoming a Participant, an Eligible Employee shall be deemed to have agreed to the provisions of this Plan and all amendments hereto.
- 2.3 Cessation of Participation. A Participant shall cease to be an active participant on the earlier of A. and B., subject to C.:
- A. the date on which the Plan terminates, or
- B. the date on which he or she ceases to be an Eligible Employee; provided, however, that participation of any Eligible Employee who subsequently becomes ineligible but retains a Plan Account shall be determined in accordance with Subsection C.
- C. Notwithstanding the foregoing, a former active Participant who retains a Plan Account shall be deemed a Participant for all purposes except that no additional Deferral Allocations shall be allocated to such Account.

ARTICLE 3

PLAN ALLOCATIONS AND VESTING

3.1 Deferral Allocations.

A. Each Participant may authorize the Employer to reduce his or her

1. Base Compensation thereafter payable in the Plan Year to which the Deferral Agreement relates by any fixed percentage ("Base Deferral Rate") for such Plan Year up to a maximum of 25% of his or her total Base Compensation payable in such Plan Year, and

2. Incentive Compensation by any fixed percentage ("Incentive Deferral Rate") for such Plan Year up to a maximum of 100% of such Incentive Compensation,

and to have a corresponding amount credited to his or her Accounts, in accordance with Section 4.2, by filing a Deferral Agreement with the Plan Administrator during his or her initial Enrollment Period or any subsequent Enrollment Period preceding the Plan Year during which such Compensation shall be earned.

The deferral shall be made from Base Compensation or Incentive Compensation, or both, as the Participant shall specify.

B. Notwithstanding the foregoing, a Participant may not make contributions to this Plan during any period for which contributions must be suspended in accordance with regulation section 1.401(k)-1(d)(2)(iii)(B)(3) of the Code, as a condition of the Participant's receipt of a hardship withdrawal from his or her Employer's qualified retirement plan.

3.2 Rules Governing Deferral Allocations.

A. Each deferral election made in accordance with Section 3.1 shall be irrevocable.

B. The amount that a Participant elects to defer shall be credited to the Participant's Accounts as soon as practicable, but no longer than 30 days following the date on which the Participant would have been paid the deferral.

3.3 Vesting. A Participant's interest in his or her Accounts shall be fully vested and nonforfeitable at all times, subject to the limitations of Section 9.10 hereof.

ARTICLE 4

PARTICIPANTS' ACCOUNTS

4.1 Establishment of Accounts. The following Accounts shall be established with respect to each Participant:

A. Retirement Account,

B. Education Account,

C. Fixed Period Account, and

D. Postretirement Health Care Account.

- 4.2 Benefit Allocation. Each Participant shall submit to the Plan Administrator before the close of the Enrollment Period for each Plan Year a written statement specifying the Participant's allocation of anticipated contributions to his or her Accounts.
- 4.3 Irrevocable Allocation. An Eligible Employee may not amend or revoke his or her allocation to Accounts (in accordance with Section 4.2) for a Plan Year after the end of the Enrollment Period for such Plan Year.
- 4.4 Suballocation Within the Education Account. If a Participant allocates a portion of his or her anticipated contributions to his or her Education Account, the Participant may further allocate among subaccounts on behalf of up to a maximum of five Eligible Dependents. In the absence of such suballocation, all contributions to the Participant's Education Account shall be equally allocated to the Participant's Eligible Dependents.
- 4.5 Investment
- A. General Rule. Participants may direct, in accordance with procedures adopted by the Plan Administrator, that their Deferral Allocations and amounts already allocated to their Accounts be deemed to be invested in shares of one or more mutual funds (with regard to fluctuations in the market value of such mutual fund shares) made available under the Plan. The mutual funds that will be available from time to time under the Plan for this purpose will be selected by a committee appointed by K&S and will be communicated to Participants by the Plan Administrator or its representative.
- B. Special Rule for Participants as of September 30, 1999. Alternatively, Participants with Account balances as of September 30, 1999, may direct that their Deferral Allocations, as well as amounts already allocated to their Accounts, be credited with interest monthly at the interest rate actually earned on the taxable portion of K&S's investment portfolio (without regard to fluctuations in the market value of such investment portfolio). (This investment option shall hereafter be referred to as the "interest-bearing account.") However, such a Participant may not divide his or her Deferral Allocations and amounts already credited to his or her Accounts among mutual funds and the interest-bearing account. Further, if such a Participant elects to invest in mutual funds, he or she will not thereafter be able to invest future Deferral Allocations or reinvest amounts already credited to his or her Accounts in the interest-bearing account.
- C. Investment Changes. Participants may change their investment directions with respect to future Deferral Allocations and amounts already allocated to their Accounts as of the beginning of any calendar quarter in accordance with procedures adopted by the Plan Administrator.
- D. Employer's Obligation. Notwithstanding the foregoing, the Employer shall not be required to actually invest any assets in accordance with Participants' investment directions. However, benefits are payable as they become due whether or not the Employer makes any investments to meet its obligations.

ARTICLE 5

BENEFITS

5.1 Retirement Account.

A. Payment of Benefit

If the employment of a Participant with a Retirement Account is terminated for any reason, whether by the Participant or by the Employer, the Employer shall pay him or her a benefit in the form and amount determined under Subsections B and C based on the value of his or her Retirement Account at such Retirement, Disability, death or other termination of employment. If the Participant is deceased, the benefit shall be paid to his or her Beneficiary.

B. Form of Payment

1. Upon the Participant's Retirement, Disability or death, payment of the benefit from his or her Retirement Account shall begin within 30 days after the applicable event.

A Participant shall elect, in accordance with Subsection D, one of the following payment options for payments under this Subsection B.1:

- (i) substantially equal annual installments for a fixed period of up to 10 years; or
- (ii) lump sum.

2. Upon the Participant's termination of employment for any reason other than Retirement, Disability or death, payment of the benefit shall begin within 30 days after such termination of employment.

A Participant shall elect, in accordance with Subsection D, one of the following payment options for payments under this Subsection B.2:

- (i) substantially equal annual installments for a fixed period of up to 5 years; or
- (ii) lump sum.

3. Notwithstanding any provision to the contrary, if a Participant's Retirement Account has a value less than \$10,000 at the time benefits are to commence, then the Participant's benefit shall be paid as a lump sum as soon as administratively feasible following the Participant's termination of employment for any reason.

C. Determination of Benefits

1. In the event that the Participant's benefits are distributed in a single lump sum in accordance with Subsection B.1(ii) or B.2(ii) or B.3, he or she shall receive a single lump sum equal to the total value of his or her Retirement Account determined as of his or her Determination Date.

2. In the event that the Participant's benefits are distributed over a fixed period of up to 10 years in accordance with Subsection B.1(i) or a fixed period of up to 5 years in accordance with Subsection B.1(ii), the

- (i) amount of the first payment shall be determined by multiplying the value of the Participant's Retirement Account as of his or her Determination Date by a fraction,
 - (a) the denominator of which equals the number of years over which the benefits are to be paid; and
 - (b) the numerator of which is one, and the
- (ii) amounts of the payments for each succeeding year shall be determined by multiplying the value of the Participant's Retirement Account as of the applicable anniversary of his or her Determination Date by a fraction,
 - (a) the denominator of which equals the number of remaining years over which the benefits are to be paid; and
 - (b) the numerator of which is one.

D. Election of Form of Benefit Payment

1. A Participant shall elect the form in which his or her benefits are payable in accordance with Subsection 5.1.B. Separate elections shall be made with respect to the form in which benefits shall be distributed upon the occurrence of the following events:

- (i) Retirement;
- (ii) Disability;
- (iii) death; and
- (iv) termination of employment for any reason other than Retirement, Disability or death.

Such elections must be made when the Participant makes his or her initial election to participate in the Plan.

2. Notwithstanding the foregoing, the Participant may elect to change the form(s) elected in accordance with Subsection 1, provided such new election shall apply only to Deferral Allocations in Plan Years beginning after the receipt by the Plan Administrator of the change in form(s) election, and shall not modify the form(s) of payment with respect to amounts attributable to any Deferral Allocations for prior Plan Years.

3. Any election made pursuant to this Article shall be made on forms and in the manner prescribed by the Plan Administrator and shall be irrevocable, except as provided in Subsection 2.

5.2 Education Account.

A. If a Participant with an Education Account remains continuously employed by the Employer until January 1 of the calendar year in which an Eligible Dependent attains age 18, the Employer shall pay to the Participant a benefit, within 30 days after such January 1 and each of the next three anniversaries thereof (the four-year payment method) or each of the next five anniversaries thereof (the six-year payment method), as elected by the Participant, determined by applying the applicable percentage from the appropriate schedule below to the value of the Eligible Dependent's Subaccount as of the date of distribution:

Four-Year Payment Method

January 1st Year	Percentage of Eligible Dependent Subaccount
1	25%
2	33-1/3%
3	50%
4	100%

Six-Year Payment Method

January 1st Year	Percentage of Eligible Dependent Subaccount
1	16-2/3%
2	20%
3	25%
4	33-1/3%
5	50%
6	100%

- B. If a Participant terminates his or her employment for any reason other than Retirement with a balance in his or her Education Account, such balance shall be transferred to his or her Retirement Account and distributed in accordance with Section 5.1.
- C. Notwithstanding any provision to the contrary, if an Eligible Dependent's subaccount has a balance of less than \$10,000 on the January 1 of the calendar year in which such Eligible Dependent attains age 18, then the balance shall be paid to the Participant in one lump sum.
- 5.3 Fixed Period Account.
- A. A benefit equal to the value of a Participant's Fixed Period Account shall be paid to the Participant, or commence to be paid, within 30 days after the first day of the month specified by the Participant in his or her election pursuant to Subsection 5.3.B.
- B. If a Participant elects, pursuant to Section 4.2, that all or a portion of his or her Deferral Allocations shall be credited to his or her Fixed Period Account, he or she shall specify in such election the month and year in which the Fixed Period Account shall be paid, or commence to be paid. The Participant shall also elect one of the following payment options for payments of his or her Fixed Income Account:
- (i) substantially equal annual installment for a fixed period of up to five years; or
 - (ii) lump sum.
- If the Participant elects installment payments, the amount of each installment shall be determined pursuant to Section 5.1.C.2. A Participant may change the form of benefit payments elected only as provided in Section 5.1.D.2.
- C. If a Participant's employment terminates for any reason and the Participant has a balance in his or her Fixed Period Account, the balance shall be transferred to his or her Retirement Account and distributed in accordance with Section 5.1.
- 5.4 Postretirement Health Care Account.
- A. Supplemental benefits hereunder shall take the form of reimbursement by the Employer for Medical Expenses incurred by a Participant and his or her spouse after having attained age 55 and having terminated employment with the Employer, or after having terminated his or her employment as a result of a Disability regardless of age.
- B. A Participant shall be entitled to benefits hereunder in an amount which does not exceed the balance in his or her Postretirement Health Care Account.
- C. As used herein, "Medical Expense" shall mean any amount paid or incurred that is a "medical care expense" as that term is used in Section 105(b) of the Code. The Plan Administrator shall determine whether any

amount constitutes a Medical Expense that qualifies for reimbursement hereunder. A Medical Expense shall be considered incurred when the goods and services giving rise to such Medical Expense are provided, irrespective of when such Medical Expenses are billed to the Participant.

- D. A Participant desiring to receive reimbursement from the Postretirement Health Care Account shall submit a written application to the Plan Administrator, in accordance with rules and regulations as the Plan Administrator may specify. Such request for reimbursement shall state:
1. the amount of the Medical Expense for which the reimbursement is requested;
 2. the purpose of the Medical Expense;
 3. a designation of whether the Medical Expense was incurred on behalf of the Participant or the Participant's spouse;
 4. the name of the person, organization or other provider to whom the Medical Expense was or is to be paid;
 5. the date on which the Medical Expense was incurred; and
 6. that the Participant has not been reimbursed for the Medical Expense by insurance or otherwise.
- E. Medical Expense reimbursement under this Plan shall be considered excess medical coverage over and above any and all coverage obtained elsewhere. Medical Expense reimbursement shall be provided only in the event and to the extent not provided for under any insurance policy or any other plan of the Employer or another employer, or under federal or state law. In the event that there is such a policy, plan or law in effect providing for such Medical Expense reimbursement in whole or in part, then to the extent of the coverage under such policy, plan or law, the Employer shall be relieved of any and all liability hereunder.
- F. If a Participant shall die while an active Employee of the Employer and while having a balance in his or her Postretirement Health Care Account, said balance shall be transferred to his or her Retirement Account and distributed to the Participant's Beneficiary in accordance with Section 5.1.
- G. If a Participant shall die after having terminated employment and while having a balance in his or her Postretirement Health Care Account, the account shall be maintained on behalf of the Participant's surviving spouse, if any. In the event the Participant is not survived by a spouse, or if the Participant's surviving spouse shall die while a balance remains in his or her Postretirement Health Care Account said balance shall be payable in a lump sum to Participant's Beneficiary as soon as administratively practicable.
- H. Notwithstanding any provision to the contrary, if at the time a Participant terminates employment for
1. reasons of Retirement, Disability or death, such Participant's Postretirement Health Care Account has a balance less than \$10,000, said balance shall be transferred to his or her Retirement Account and distributed to the Participant, or Beneficiary, if applicable, in accordance with Section 5.1.
 2. any reason other than Retirement, Disability or death, such Participant's Postretirement Health Care Account shall be transferred to his or her Retirement Account and distributed to the Participant, or Beneficiary, if applicable, in accordance with Section 5.1.
- 5.5 Beneficiary Designation.
- A. Each Participant, upon becoming eligible for participation in the Plan, may designate a Beneficiary or Beneficiaries to receive the benefits payable in the event of his or her death, and designate a successor Beneficiary or Beneficiaries to receive any benefits payable in the event of the death of any other Beneficiary.

- B. A Participant may change his or her Beneficiary or Beneficiaries at any time. All Beneficiary designations and changes shall be made on an appropriate form as designated by the Plan Administrator and filed with the Plan Administrator.
- C. If no person shall be designated by the Participant, or if the designated Beneficiary or Beneficiaries shall not survive the Participant, payment of his or her interest shall be made to the Participant's estate.
- 5.6 Distribution Upon Change in Control or Special Circumstance. Upon the occurrence of a Change in Control or a Special Circumstance, the Employer shall pay to each Participant, within 30 days after the event has occurred, a single lump sum equal to the total value of all Accounts of the Participant, valued as of the end of the month immediately preceding such payment.
- 5.7 Tax Withholding. To the extent required by the law, the Employer shall withhold or cause to be withheld taxes from payments made under this Plan.
- 5.8 No Right of Set-Off. The Employer shall not have the right to set-off against benefits payable to a Participant pursuant to this Plan any amounts owing, or alleged to be owing, by the Participant to the Employer.

ARTICLE 6

ADMINISTRATION

- 6.1 Appointment of Plan Administrator. The Compensation Committee of the Board of Directors shall serve as Plan Administrator.
- 6.2 Plan Administrator's Responsibilities. The Plan Administrator is responsible for the overall administration of the Plan. The Plan Administrator may appoint other persons or entities to perform any of its fiduciary functions. Such appointment shall be made and accepted by the appointee in writing. The Plan Administrator and any such appointee may employ advisors and other persons necessary or convenient to help him or her carry out his or her duties, including his or her fiduciary duties. The Plan Administrator shall have the right to remove any such appointee from his or her position. Any person, group of persons or entity may serve in more than one fiduciary capacity.
- 6.3 Records and Accounts; Statements to Participants. The Plan Administrator shall maintain or shall cause to be maintained accurate and detailed records and accounts of Participants and of their rights under the Plan, and of all investments, receipts, disbursements and other transactions. Such accounts, books and records relating thereto shall be open at all reasonable times to inspection and audit by the Employer and by persons designated thereby, and by a Participant with respect to his or her individual records and accounts.

The Employer shall provide to each Participant, not later than 30 days after the end of each calendar quarter, a statement showing the amounts credited to each of the Participant's Accounts at the beginning of the quarter, additional Deferral Contributions to the Accounts during the quarter, and interest credited to the Accounts in accordance with Section 4.5.
- 6.4 Plan Administrator's Specific Powers and Duties. In addition to any powers, rights and duties set forth elsewhere in the Plan, the Plan Administrator shall have the following powers and duties:
 - A. to adopt rules and regulations consistent with the provisions of the Plan;
 - B. to enforce the Plan in accordance with its terms and any rules and regulations it establishes;
 - C. to maintain records concerning the Plan sufficient to prepare reports, returns and other information required by the Plan or by law;

- D. to construe and interpret the Plan in its sole discretion and to resolve all questions, including questions involving the entitlement to benefits, arising under the Plan;
 - E. to direct the Employer to pay benefits under the Plan, and to give such other directions and instructions as may be necessary for the proper administration of the Plan; and
 - F. to be responsible for the preparation, filing and disclosure on behalf of the Plan of such documents and reports as are required by any applicable federal or state law.
- 6.5 Employer's Responsibility to Plan Administrator. The Employer shall furnish the Plan Administrator such data and information as it may require. The records of the Employer shall be determinative of each Participant's period of employment, termination of employment and the reason therefor, leave of absence, reemployment, years of service, personal data, and compensation reductions. Participants and their Beneficiaries shall furnish to the Plan Administrator such evidence, data, or information, and execute such documents, as the Plan Administrator requests.
- 6.6 Liability. Neither the Plan Administrator nor the Employer shall be liable to any person for any action taken or omitted in connection with the administration of this Plan unless attributable to its own fraud or willful misconduct; nor shall the Employer be liable to any person for such action unless attributable to fraud or willful misconduct on the part of a director, officer or employee of the Employer.
- 6.7 Payment of Expenses. All expenses of the Plan Administrator incurred in the operation or administration of this Plan shall be paid by the Employer.
- 6.8 Indemnity of Plan Administrator. The Employer shall indemnify the Plan Administrator or any individual who is a delegate against any and all claims, loss, damage, expense or liability arising from any action or failure to act, except when due to gross negligence or willful misconduct. The Employer may purchase errors and omissions insurance, the proceeds from which may be used for any such indemnification.

ARTICLE 7

CLAIMS PROCEDURE

- 7.1 Claim and Review. If a Participant or Beneficiary is denied all or a portion of an expected Plan benefit for any reason, he or she must file a written notification of his or her claim with the Plan Administrator. The Plan Administrator shall notify the Participant or Beneficiary within 30 days of allowance or denial of the claim. If the Plan Administrator fails to notify the claimant of its decision to grant or deny the claim within the 30-day period, such claim shall be deemed to have been conclusively denied.
- The notice provided by the Plan Administrator under this Section shall be in writing, sent by mail to the Participant's last known address and, if a denial, must contain the following information:
- A. the specific reasons for the denial;
 - B. the specific reference to the pertinent Plan provision on which the denial is based;
 - C. if applicable, a description of any additional information or material necessary to perfect the claim, and an explanation of why such information or material is necessary; and
 - D. an explanation of the Participant's right to seek a court review of the denial of the claim.
- 7.2 Right to Sue; Payment of Attorneys' Fees. If the Plan Administrator denies a claim filed with it in accordance with Section 7.1, a Participant or Beneficiary may then commence an action against the Employer, the Plan and the Plan Administrator, or any of them separately, in a court of competent jurisdiction, for appropriate relief. If, after such court action has commenced, the Employer pays, or is required to pay (whether by court

order, mutual agreement, or otherwise) all or any part of the benefits claimed by the Participant or Beneficiary, the Employer shall pay the full amount of the attorneys' fees incurred by the Participant or Beneficiary in prosecuting such court action, together with all costs and disbursements related thereto.

ARTICLE 8

AMENDMENT AND TERMINATION

- 8.1 Plan Amendment. The Plan may be amended or otherwise modified, in whole or in part, either retroactively or prospectively, by written resolution of the Board of Directors, provided that no amendment or modification shall, without the consent of the Participant, reduce the then balance in any Account of any Participant, reduce the amount of interest to be thereafter credited to any such Account under Section 4.5, divest any then vested interest in any Account balance, create any vesting requirement for Deferral Allocations or for the investment return thereafter to be credited on any then existing Account balance, deprive any Participant of the right to attorneys' fees under Section 7.2, permit any set-off by the Employer against benefits payable hereunder or otherwise adversely affect the rights of a Participant with respect to amounts credited to his or her Account.
- 8.2 No Premature Distribution. Subject to Section 8.3, no amendment hereto shall permit amounts accumulated prior to the amendment to be paid to a Participant or Beneficiary prior to the time he or she would otherwise be entitled thereto.
- 8.3 Termination of the Plan. K&S reserves the right to terminate the Plan and/or the Deferral Agreement pertaining to any Participant at any time prior to the commencement of benefits by written resolution of its Board of Directors. In the event of the termination of the Plan, the Employer shall, within 30 days after such termination, pay a single lump sum to each Participant or the Beneficiary of any deceased Participant, in lieu of other benefits hereunder, equal to the total value of all of the Participant's Accounts, valued as of the end of the month immediately preceding such payment.

ARTICLE 9

MISCELLANEOUS

- 9.1 Supplemental Benefits. The benefits provided for the Participants under this Plan are in addition to benefits provided by any other plan or program of the Employer and, except as otherwise expressly provided herein, the benefits of this Plan shall supplement and shall not supersede any plan or agreement between the Employer and any Participant or any provisions contained herein.
- 9.2 Governing Law. The Plan shall be governed and construed under the laws of the Commonwealth of Pennsylvania as in effect at the time of its adoption.
- 9.3 Jurisdiction. The federal and state courts in the Commonwealth of Pennsylvania shall have exclusive jurisdiction in any or all actions arising under this Plan.
- 9.4 No Assignment Permitted. No Participant, Beneficiary or heir shall have any right to commute, sell, transfer, assign or otherwise convey the right to receive any payment under the terms of this Plan. Any such attempted assignment shall be considered null and void.
- 9.5 Binding Terms. The terms of this Plan shall be binding upon and inure to the benefit of the parties hereto, their respective heirs, executors, administrators and successors.
- 9.6 Spendthrift Provision. Neither the interest of any Participant or Beneficiary or other person herein nor any such person's right to payments hereunder shall be subject in any manner to anticipation, voluntary or

involuntary alienation, sale, transfer, assignment, pledge, encumbrance, attachment or garnishment by creditors (including the Employer) of the Participant, Beneficiary or other person.

- 9.7 Headings. All headings preceding the text of the several Sections hereof are inserted solely for reference and shall not constitute a part of this Plan, nor affect its meaning, construction or effect.
- 9.8 Rules of Interpretation. Where appropriate, words in the masculine gender shall include the feminine and neuter genders, and singular words shall include the plural, where appropriate.
- 9.9 No Continued Employment. Nothing in this Plan shall require the Employer to retain any Participant in its service.
- 9.10 Limitation of Rights. To the extent a Participant or any Beneficiary or other person acquires a right to receive payments from the Employer under this Plan, such rights shall be the same as those of other general unsecured creditors of the Employer. The Plan constitutes a mere promise by the Employer to make benefit payments in the future. It is the intention of the Employer, and each Participant by virtue of his or her participation herein confirms that it is also his or her intention, that the arrangements for future payments provided for herein are, and are to remain, unfunded for tax purposes and for purposes of Title I of the Employee Retirement Income Security Act of 1974, as amended. Neither the establishment of the Plan, nor any modification thereof, nor the creation of an account, nor the payment of any benefits shall be construed as giving any Participant, Beneficiary, or any other person whomsoever, any legal or equitable right against the Employer or the Plan Administrator unless such right shall be specifically provided for in the Plan; or as giving any Participant the right to be retained in the service of the Employer, and all Participants and other employees shall remain subject to discharge to the same extent as if the Plan had never been adopted.
- 9.11 Severability. Should any provision of the Plan or any regulations adopted thereunder be deemed or held to be unlawful or invalid for any reason, such fact shall not adversely affect the other provisions or regulations unless such invalidity shall render impossible or impractical the functioning of the Plan and, in such case, the appropriate parties shall immediately adopt a new provision or regulation to take the place of the one held illegal or invalid.

KULICKE & SOFFA INDUSTRIES INC.

Attest:

By: _____

[CORPORATE SEAL]

AMENDMENT NO. 1
TO THE
KULICKE AND SOFFA INDUSTRIES, INC.
1998 EMPLOYEE INCENTIVE STOCK OPTION AND
NON-QUALIFIED STOCK OPTION PLAN

WHEREAS, Kulicke and Soffa Industries, Inc. (the "Company") established the Kulicke and Soffa Industries, Inc. 1998 Employee Incentive Stock Option and Non-Qualified Stock Option Plan (the "Plan"), effective November 11, 1998; and

WHEREAS, Section 9 of the Plan provides that, subject to certain inapplicable limitations, the Board of Directors of the Company may amend the Plan at any time; and

WHEREAS, the Company desires to amend the Plan to limit the circumstances under which options granted under the Plan may be modified;

NOW, THEREFORE, with respect to options outstanding on February 9, 1999, and to options granted on and after such date, a new subsection (g) is hereby added to Section 12 (MISCELLANEOUS) of the Plan to read as follows:

(g) MODIFICATION OF OPTION. Notwithstanding any provision of this Plan to the contrary (other than Section 7), the option price of an outstanding Option shall not, without the prior approval of the Company's stockholders, be reduced whether through amendment, cancellation, replacement grants, or other similar means; provided, however, that this shall not preclude the grant, in accordance with the provisions of this Plan, of additional Options: (1) not in replacement, in whole or in part, of cancelled Options, or (2) following expiration of Options.

IN WITNESS WHEREOF, the Company has caused this Amendment No. 1 to be duly executed this _____ day of _____, 1999.

KULICKE AND SOFFA INDUSTRIES, INC.

By: _____

AMENDMENT NO. 1
TO THE
KULICKE AND SOFFA INDUSTRIES, INC.
1994 EMPLOYEE INCENTIVE STOCK OPTION AND
NON-QUALIFIED STOCK OPTION PLAN

(As Amended and Restated Effective October 8, 1996)

WHEREAS, Kulicke and Soffa Industries, Inc. (the "Company") established the Kulicke and Soffa Industries, Inc. 1994 Employee Incentive Stock Option and Non-Qualified Stock Option Plan (the "Plan"), effective December 13, 1994; and

WHEREAS, the Plan was most recently amended and restated effective October 8, 1996; and

WHEREAS, Section 9 of the Plan provides that, subject to certain inapplicable limitations, the Board of Directors of the Company may amend the Plan at any time; and

WHEREAS, the Company desires to amend the Plan to limit the circumstances under which options granted under the Plan may be modified;

NOW, THEREFORE, with respect to options outstanding on February 9, 1999, and to options granted on and after such date, a new subsection (g) is hereby added to Section 12 (MISCELLANEOUS) of the Plan to read as follows:

(g) MODIFICATION OF OPTION. Notwithstanding any provisions of this Plan to the contrary (other than Section 7), the option price of an outstanding Option shall not, without the prior approval of the Company's stockholders, be reduced whether through amendment, cancellation, replacement grants, or other similar means; provided, however, that this shall not preclude the grant, in accordance with the provisions of this Plan, of additional Options: (1) not in replacement, in whole or in part, of cancelled Options, or (2) following expiration of Options.

IN WITNESS WHEREOF, the Company has caused this Amendment No. 1 to be duly executed this _____ day of _____, 1999.

KULICKE AND SOFFA INDUSTRIES, INC.

By: _____

AMENDMENT NO. 1
TO THE
KULICKE AND SOFFA INDUSTRIES, INC.
1988 EMPLOYEE INCENTIVE STOCK OPTION AND
NON-QUALIFIED STOCK OPTION PLAN

(As Amended and Restated Effective October 8, 1996)

WHEREAS, Kulicke and Soffa Industries, Inc. (the "Company") established the Kulicke and Soffa Industries, Inc. 1988 Employee Incentive Stock Option and Non-Qualified Stock Option Plan (the "Plan"), effective December 6, 1988; and

WHEREAS, the Plan was most recently amended and restated effective October 8, 1996; and

WHEREAS, Section 7 of the Plan provides that, subject to certain limitations, the Company's Board of Directors (the "Board") may amend the Plan at any time; and

WHEREAS, the Company desires to amend the Plan to reflect the Board's exercise of its discretion under the Plan to limit the circumstances under which it may modify options granted under the Plan;

NOW, THEREFORE, with respect to options outstanding on February 9, 1999, a new sentence is added to the end of subsection (j) (Modification, Extension, and Renewal of Option) of Section 5 (Terms and Conditions of Options) of the Plan to read as follows:

Further, notwithstanding any provision of this Plan to the contrary (other than Section 5(h)), the option price of an outstanding Option shall not, without the prior approval of the Company's stockholders, be reduced, whether through amendment, cancellation, replacement grants, or other similar means.

IN WITNESS WHEREOF, the Company has caused this Amendment No. 1 to be duly executed this _____ day of _____, 1999.

KULICKE AND SOFFA INDUSTRIES, INC.

By: _____

SUBSIDIARIES OF THE COMPANY (1)

Name -----	Jurisdiction of Incorporation -----
Kulicke and Soffa AG	Switzerland
Kulicke & Soffa (Asia) Limited	Hong Kong
Kulicke and Soffa (Japan) Ltd.	Japan and Delaware
Kulicke and Soffa (Israel) Ltd.	Israel
Kulicke and Soffa Investments, Inc.	Delaware
Micro-Swiss Limited	Israel
Kulicke and Soffa Leasing, Inc.	Delaware
Kulicke & Soffa Singapore, Inc.	Delaware
Kulicke and Soffa Pte	Singapore
Kulicke & Soffa Export, Inc.	Barbados
AFWH Sub, Inc. (Formerly Circle "S" Industries, Inc.)	Alabama
American Fine Wire Corporation	Alabama
American Fine Wire, Limited	Cayman Islands
Dr. Muller Feindraht AG	Switzerland
Semitec (2)	California
Flip Chip Technologies, LLC (2)	Delaware

(1) Certain subsidiaries are omitted; however, such subsidiaries, even if combined into one subsidiary, would not constitute a "significant subsidiary" within the meaning of Regulation S-X.

(2) The shares of Semitec and the Company's equity interest in Flip Chip Technologies, LLC and Advanced Polymer Solutions, LLC are held by Kulicke and Soffa Holdings, Inc., a Delaware corporation.

Consent of Independent Accountants

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (Nos. 2-68488, 33-12453, 33-13577, 33-30884, 33-39265, 333-0567, 333-69445 and 333-69441) of Kulicke and Soffa Industries, Inc. of our report dated December 6, 1999, except as to Note 15 which is as of December 15, 1999, relating to the financial statements and financial statement schedule of Kulicke and Soffa Industries, Inc., which appears in this Form 10-K.

PricewaterhouseCoopers LLP

Philadelphia, Pennsylvania
December 20, 1999

Consent of Independent Accountants

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (Nos. 2-684488, 33-12453, 33-13577, 33-30884, 33-39265 and 333-0567, 333-69445 and 333-69441) of Kulicke and Soffa Industries, Inc. of our report dated December 6, 1999, relating to the financial statements of Flip Chip Technologies, LLC, which appears in this Form 10-K.

PricewaterhouseCoopers LLP

Philadelphia, Pennsylvania
December 20, 1999

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the incorporation by reference in this Form 10-K of our report dated November 19, 1998 for Flip Chip Technologies, LLC, included in Registration Statements File Nos. 2-684488, 33-12453, 33-13577, 33-30884, 33-39265, 333-0567, 333-69441 and 333-69445. It should be noted that we have not audited any financial statements of the Flip Chip Technologies, LLC subsequent to September 30, 1998 or performed any audit procedures subsequent to the date of our report,

Arthur Andersen LLP

Phoenix, Arizona
December 20, 1999

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE KULICKE & SOFFA INDUSTRIES, INC. FORM 10K FOR THE YEAR ENDED 9/30/99 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

1,000

12-MOS

	SEP-30-1999	
	OCT-01-1998	
	SEP-30-1999	
		37,155
		2,190
		137,774
		1,727
		61,782
	261,085	
		144,169
	(76,684)	
	378,145	
93,954		0
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		0
		160,108
		114,668
378,145		
		398,917
	398,917	
		285,382
		285,382
	133,267	
	0	
	215	
	(26,185)	
	(8,221)	
(16,946)		
	0	
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	(16,946)	
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