KULICKE & SOFFA INDUSTRIES INC
Form POS AM
December 14, 2004
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As filed with the Securities and Exchange Commission on December 14, 2004

Registration No. 333-119406

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

POST-EFFECTIVE AMENDMENT NO.1 TO

FORM S-1

REGISTRATION STATEMENT

UNDER

THE SECURITIES ACT OF 1933

KULICKE AND SOFFA INDUSTRIES, INC.

(Exact Name of Registrant as Specified in Its Charter)

Pennsylvania	**3674**	**23-1498399**
(State or Other Jurisdiction of Incorporation or Organization)	**(Primary Standard Industrial Classification Code Number)**	**(I.R.S. Employer Identification Number)**

2101 Blair Mill Road

Willow Grove, Pennsylvania 19090

(215) 784-6000

(Address, Including Zip Code, and Telephone Number, Including Area Code, of Registrant s Principal Executive Offices)

David J. Anderson

Vice President and General Counsel

2101 Blair Mill Road

Willow Grove, Pennsylvania 19090

(215) 784-6000

(Name, Address, Including Zip Code, and Telephone Number, Including Area Code, of Agent for Service)

Copy to:

F. Douglas Raymond, III

Drinker Biddle & Reath LLP

One Logan Square

18th and Cherry Streets

Philadelphia, PA 19103-6996

Approximate date of commencement of proposed sale to the public: As soon as practicable after the effective date of this Registration Statement.

If any of the securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box. x

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

If this form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

If this form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

If delivery of the prospectus is expected to be made pursuant to Rule 434, check the following box. ¨

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65,000,000

1% Convertible Subordinated Notes due 2010 and

the Common Stock issuable upon conversion of the Notes

We issued the notes in a private placement in June 2004. This prospectus will be used by selling securityholders to resell their notes and the common stock issuable upon conversion of their notes.

The notes are convertible, at the option of the holder, at any time on or before the final maturity date into shares of our common stock. The notes are convertible at an initial conversion rate of 77.8743 shares per $1,000 principal amount of notes (equivalent to a conversion price of approximately $12.84 per share), subject to adjustment. We will pay interest on the notes on June 30 and December 30 of each year, beginning on December 30, 2004. The notes will mature on June 30, 2010, unless earlier converted or purchased by us at your option upon a fundamental change.

Your conversion rights may be terminated on or after June 30, 2006. We have five trading days after a conversion termination trigger event to notify you that we are terminating your conversion rights. A conversion termination trigger event occurs if the closing price of our common stock has exceeded 140% of the conversion price then in effect for at least 20 trading days within a period of 30 consecutive trading days. You may convert your notes at any time on or before the 20th day following the date of our notice of termination of your conversion rights.

Upon a fundamental change relating to Kulicke and Soffa Industries, Inc., each holder of the notes may require us to repurchase all or a portion of the notes for cash at a price equal to the principal amount of such notes, plus accrued but unpaid interest, and liquidated damages, if any, to the date of purchase. In certain circumstances, we will pay a make-whole premium, payable in cash, upon a fundamental change.

The notes are our unsecured subordinated obligations, rank junior in right of payment to all of our existing and future senior indebtedness, and are structurally subordinated to all indebtedness and other liabilities, including trade payables, of our subsidiaries.

Our common stock is traded on the Nasdaq National Market under the symbol KLIC. On December 13, 2004, the last reported sale price of our common stock was $8.51 per share.

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

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

This prospectus is dated December 14, 2004

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All references in this prospectus to Kulicke & Soffa, the company, our, us and we refer to Kulicke and Soffa Industries, Inc. and its consolid subsidiaries, except where the context otherwise requires or as otherwise indicated.

You should rely only on the information contained in this prospectus. We have not authorized any other person to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. We are not making an offer to sell these securities or soliciting an offer to buy the securities in any jurisdiction where the offer or sale is not permitted. You should assume that the information appearing in this prospectus is accurate only as of the date of this prospectus. Our business, financial condition, results of operations and prospects may have changed since that date.

This prospectus is based on information provided by us and by other sources that we believe are reliable. We cannot assure you that this information is accurate or complete. This prospectus summarizes certain documents and other information, and we refer you to them for a more complete understanding of what we discuss in this prospectus. In making an investment decision, you must rely on your own examination of our company and the terms of this offering and the notes and underlying common stock, including the merits and risks involved.

We are not making any representation to any purchaser of the notes or the underlying common stock regarding the legality of an investment in the notes or the underlying common stock by such purchaser. You should not consider any information in this prospectus to be legal, business or tax advice. You should consult your own attorney, business advisor or tax advisor for legal, business and tax advice regarding an investment in the notes or the underlying common stock.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

- the projected growth rates in the overall semiconductor industry, the semiconductor assembly equipment market, the market for semiconductor packaging materials and the market for test interconnect solutions;
- the successful operation of our test interconnect business and its expected growth rate; and
- the projected continuing demand for wire bonders.

Generally, words such as may, will, should, could, anticipate, expect, intend, estimate, plan, continue, and believe, or the n variations on these and other similar expressions identify forward-looking statements. These forward-looking statements are made only as of the date of this prospectus. 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 Risk Factors and those detailed from time to time in our filings with the SEC. In light of these and other uncertainties, you should not conclude that we will necessarily achieve any plans or objectives or projected financial results referred to in any forward-looking statements.

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SUMMARY

This summary contains basic information about us and this prospectus. Because it is a summary, it does not contain all of the information that you should consider before investing. You should read this entire prospectus carefully, including the section entitled Risk Factors and our financial statements and the notes to our financial statements, before making an investment decision.

We design, manufacture and market capital equipment, packaging materials and test interconnect products as well as service, maintain, repair and upgrade equipment, all used to assemble and/or test semiconductor devices. We are currently the world s leading supplier of semiconductor wire bonding assembly equipment, according to VLSI Research, Inc. Our business is currently divided into three product segments:

- equipment;
- packaging materials; and
- wafer and package test interconnect products.

We believe we are the only major supplier to the semiconductor assembly industry that can provide customers with semiconductor wire bonding equipment along with the complementary packaging materials and test interconnect products that actually contact the surface of the customer s semiconductor devices. We believe that the ability to control all of these assembly related products provides us with a significant competitive advantage and should allow us to develop system solutions to the new technology challenges inherent in assembling and packaging next-generation semiconductor devices.

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. We maintain a website with the address *www.kns.com*. We are not including the information contained on our website as a part of, or incorporating it by reference into, this prospectus.

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The Offering

Issuer	Kulicke and Soffa Industries, Inc.
Notes Offered	$65 million aggregate principal amount of 1% Convertible Subordinated Notes due June 30, 2010.
Interest	1% per year on the principal amount, payable semi-annually on June 30 and December 30 of each year, beginning on December 30, 2004.
Maturity	June 30, 2010.
Ranking	The notes are subordinated in right of payment to all of our senior indebtedness and are structurally subordinated to all indebtedness and other liabilities, including trade payables, of our subsidiaries. The notes rank equally with our 0.5% Convertible Subordinated Notes due 2008. As of September 30, 2004, we had senior indebtedness outstanding in the amount of approximately $14.3 million, and our subsidiaries had approximately $95.9 million of liabilities outstanding, excluding liabilities owed to us. Neither we nor our subsidiaries are prohibited from incurring debt, including senior indebtedness, under the indenture. See Description of Certain Other Indebtedness.
Conversion Rights	You may convert each note into shares of our common stock (unless your right to convert is terminated as described under Termination of Conversion Right below) at an initial conversion rate of 77.8743 shares per $1,000 principal amount of notes, which is equal to a conversion price of approximately $12.84 per share, subject to adjustment, at any time on or before the final maturity date. In addition, if we declare a cash dividend or distribution to all or substantially all of the holders of our common stock (other than a dividend or distribution in connection with our liquidation, dissolution or winding up), the conversion rate will be increased to equal the number determined by multiplying the conversion rate in effect immediately before the record date for such dividend or distribution by the following fraction: $\frac{\text{(Pre-Dividend Sale Price)}}{\text{(Pre-Dividend Sale Price} \quad \text{Dividend Adjustment Amount)}}$ Pre-Dividend Sale Price means the average of the last reported sale price of our common stock for the three consecutive trading days ending on the trading day immediately preceding the ex-dividend date for such dividend or distribution. Dividend Adjustment Amount means the full amount of the dividend or distribution to the extent payable in cash applicable to one share of common stock. Upon conversion, the holder will not receive any cash payment representing accrued but unpaid interest or liquidated damages, if any. See Description of Notes Conversion of the Notes.

Termination of Conversion Right	Your conversion rights may be terminated on or after June 30, 2006. We have five trading days after a conversion termination trigger event to notify you that we are terminating your conversion rights. A conversion termination trigger event occurs if the closing price of our common stock has exceeded 140% of the conversion price then in effect for at least 20 trading days within a period of 30 consecutive trading days. You may convert your notes at any time on or before the 20th day following the date of our notice of termination of your conversion rights. See Description of Notes Termination of Conversion Right.
Sinking Fund	None.
Fundamental Change	If a fundamental change (as described under Description of Notes Fundamental Change) occurs before maturity, you may require us to purchase all or part of your notes for cash at a purchase price equal to 100% of their principal amount, plus accrued but unpaid interest, and liquidated damages, if any, to the date of purchase. In addition, in certain circumstances, we will pay a make-whole premium, payable in cash, upon a fundamental change.
Use of Proceeds	We will not receive any of the proceeds from the sale by any selling securityholder of the notes or the underlying common stock.
PORTAL^{SM} Trading of Notes	The notes are eligible for trading in The PORTAL^{SM} Market of the National Association of Securities Dealers, Inc.
Listing of Common Stock	Our common stock is listed on the Nasdaq National Market under the symbol KLIC.
Risk Factors	Investing in the notes and common stock issuable upon conversion of the notes involves risks. See Risk Factors and other information contained elsewhere in this prospectus for a description of certain risks you should consider before making an investment decision.

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RISK FACTORS

You should carefully consider all of the information contained in this prospectus and the financial statements and other documents summarized in this prospectus, including the risks described below, before making an investment decision. The risks described below are not the only ones facing our company. Additional risks not currently known to us or that we currently consider less significant may also impair our business operations.

Our business, financial condition, or results of operations could be materially, adversely affected by any of these risks. The trading price of the notes and our common stock could decline due to any of these risks, and you may lose all or part of your investment.

Risks Relating to Our Business

The semiconductor industry is volatile with sharp periodic downturns and slowdowns

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

Historically, the semiconductor industry has been volatile, with periods of rapid growth followed by industry-wide retrenchment. These periodic downturns and slowdowns have adversely affected our business, financial condition and operating results. They have been characterized by, among other things, diminished product demand, excess production capacity, and accelerated erosion of selling prices. These downturns historically have severely and negatively affected the industry s demand for capital equipment, including the assembly equipment, the packaging materials and test interconnect solutions that we sell.

The semiconductor industry experienced downturns in fiscal 1998 through the first half of fiscal 1999, in fiscal 2001 through the first three quarters of fiscal 2003 and we are currently seeing a slowing in customer demand for our wire bonders. In the 1998-1999 downturn, our net sales declined from approximately $501.9 million in fiscal 1997 to $411.0 million in fiscal 1998. In the 2001-2003 downturn, our net sales declined from approximately $877.6 million in fiscal 2000 to $441.6 million in fiscal 2002. The business environment was improved in the fourth quarter of fiscal 2003 through the first nine months of fiscal 2004 but we experienced slowing in demand for our wire bonders in our fourth quarter of fiscal 2004 and we anticipate further slowing in demand for our wire bonders in the first fiscal quarter of 2005. There can be no assurances regarding the level of demand for our products, and in any case, we believe the historical volatility both upward and downward will persist. Any downturn may be more severe and prolonged than those experienced in the past. Downturns adversely affect our business, financial condition and operating results.

We may experience increasing price pressure

Our historical business strategy for many of our products has focused on product performance and customer service more than on price. The length and severity of the most recent economic downturn increased cost pressures on our customers and we have observed increasing price sensitivity on their part. In response, we are actively seeking to reduce our cost structure by moving operations to lower cost areas and by reducing other operating costs. If we are unable to realize prices that allow us to continue to compete on the basis of performance and service, our financial condition and operating results may be materially and adversely affected.

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

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

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

- market downturns;
- the mix of products that we sell because, for example:
  - our test division has lower margins than assembly equipment and packaging materials;
  - some lines of equipment within our business segments are more profitable than others; and
  - some sales arrangements have higher margins than others;
- the volume and timing of orders for our products and any order postponements;
- virtually all of our orders are subject to cancellation, deferral or rescheduling by the customer without prior notice and with limited or no penalties;
- changes in our pricing, or that of our competitors;
- higher than anticipated costs of development or production of new equipment models;
- the availability and cost of the components for our products;
- unanticipated delays in the introduction of our new products and upgraded versions of our products and market acceptance of these products when introduced;
- customers delay in purchasing our products due to customer anticipation that we or our competitors may introduce new or upgraded products; and
- our competitors introduction of new products.

Many of our expenses, such as research and development, selling, general and administrative expenses and interest expense, do not vary directly with our net 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. In a downturn, we may have excess inventory, which is required to be written off. Some of the other factors that may cause our expenses to fluctuate from period-to-period include:

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

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

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

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

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

Approximately 86% of our net sales for fiscal 2004, 80% of our net sales for fiscal 2003 and 74% of our net sales for fiscal 2002 were attributable to sales to customers for delivery outside of the United States, in particular to customers in the Asia/Pacific region. We expect this trend to continue. Thus, our future performance will depend, in significant part, on our ability to continue to compete in foreign markets, particularly in Asia/Pacific. These economies have been highly volatile, resulting in significant fluctuation in local currencies, and political and economic instability. These conditions may continue or worsen, which may materially and adversely affect our business, financial condition and operating results.

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

- terrorism, 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;
- restrictions on the repatriation of our assets, including cash;
- possible disagreements with tax authorities regarding transfer pricing regulations;

the difficulties of staffing and managing dispersed international operations;

episodic events outside our control such as, for example, the outbreak of Severe Acute Respiratory Syndrome;

tariff and currency fluctuations;

changing political conditions;

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labor conditions and costs;

foreign governments monetary policies and regulatory requirements;

less protective foreign intellectual property laws; and

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

Because most of our foreign sales are denominated in 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 may be materially and adversely affected by a strengthening of the United States dollar against foreign currencies. Because we have significant assets, including cash, outside the United States, those assets are subject to risks of seizure, and it may be difficult to repatriate them, or repatriation may result in the payment by us of significant United States taxes.

Our international operations also depend upon favorable trade relations between the United States and those foreign countries in which our customers, subcontractors, and materials suppliers have operations. A protectionist trade environment in either the United States or those foreign countries in which we do business, such as a change in the current tariff structures, export compliance or other trade policies, may materially and adversely affect our ability to sell our products in foreign markets. In addition, any change to existing United States laws or the enactment of new laws penalizing United States companies for reducing the number of United States based employees and hiring more employees in foreign countries may adversely affect our business, financial condition and operating results.

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

In an effort to further reduce our cost structure, we have initiated a process of closing some of our manufacturing facilities and expanding others. We may incur significant and unexpected costs, delays and disruptions to our business during this consolidation process. Because of unanticipated events, including the actions of governments, employees or customers, we may not realize the synergies, cost reductions and other benefits of any consolidation to the extent or within the timeframe that we currently expect.

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

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

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

We typically operate our business with a relatively short backlog. As a result, we sometimes experience inventory shortages or excesses. We generally order supplies and otherwise plan our production based on internal forecasts of demand. We have in the past, and may again in the future, fail to forecast accurately demand for our products, 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. If we fail to forecast accurately demand for our products, including assembly equipment, packaging materials and test interconnect solutions, our business, financial condition and operating results may be materially and adversely affected.

Advanced packaging technologies other than wire bonding may render some of our products obsolete

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

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

The semiconductor manufacturing industry is highly concentrated, with a relatively small number of large semiconductor manufacturers and their subcontract assemblers and vertically integrated manufacturers of electronic systems purchasing a substantial portion of our semiconductor assembly equipment, packaging materials and test interconnect solutions. Sales to a relatively small number of customers account for a significant percentage of our net sales. In fiscal 2004, fiscal 2003 and fiscal 2002, sales to Advanced Semiconductor Engineering, our largest customer, accounted for 17%, 13% and 13%, respectively, of our net sales.

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

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

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

- lack of control over the manufacturing process for components and subassemblies;
- changes in our manufacturing processes, in response to changes in the market, which may delay our shipments;
- our inadvertent use of defective or contaminated raw materials;
- the relatively small operations and limited manufacturing resources of some of our suppliers, which may limit their ability to manufacture and sell subassemblies, components or parts in the volumes we require and at acceptable quality levels and prices;
- reliability or quality problems with certain key subassemblies provided by single source suppliers as to which we may not have any short term alternative;

- shortages caused by disruptions at our suppliers and subcontractors for a variety of reasons, including work stoppage or fire, earthquake, flooding or other natural disasters;
- delays in the delivery of raw materials or subassemblies, which, in turn, may delay our shipments; and
- the loss of suppliers as a result of the consolidation of suppliers in the industry.

If we are unable to deliver products to our customers on time for these or any other reasons; if we are unable to meet customer expectations as to cycle time; or if we do not maintain acceptable product quality or reliability, our business, financial condition and operating results may be materially and adversely affected.

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Our test division and our diversification presents significant management and operating challenges

During fiscal 2001, we acquired two companies that design and manufacture test interconnect solutions, Cerprobe Corporation and Probe Technology Corporation, and combined their operations to create our test division. Since its acquisition in 2001, this division has not performed to our expectations. Problems have included difficulties in rationalizing duplicate products and facilities, and in integrating these acquisitions. Our plan to correct these problems centers on the following steps: standardize production processes between the various test manufacturing sites, create and ramp production of our highest volume products in a new lower cost site in China and/or outsource production where appropriate, then rationalize excess capacity by converting existing higher cost, low volume manufacturing sites to service centers. If we are unable to successfully implement this plan, our operating margins and results of operations will continue to be adversely affected by the performance of our test division.

More generally, our diversification strategy has increased demands on our management, financial resources and information and internal control systems. Our success will depend, in part, on our ability to manage and integrate our test division and our equipment and packaging materials businesses and to continue successfully to implement, improve and expand our systems, procedures and controls. If we fail to integrate our businesses successfully or to develop the necessary internal procedures to manage diversified businesses, our business, financial condition and operating results may be materially and adversely affected.

Although we have no current plans to do so, we may from time to time in the future seek to expand our business through acquisition. In that event, the success of any such acquisition will depend, in part, on our ability to integrate and finance (on acceptable terms) the acquisition.

We may be unable to continue to compete successfully in the highly competitive semiconductor equipment, packaging materials and test interconnect solutions industries

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

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

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

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

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

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

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

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

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

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

Some of our customers are parties to litigation brought by the Lemelson Medical, Education and Research Foundation Limited Partnership (Lemelson), in which Lemelson claims that certain manufacturing processes used by those customers infringe patents held by Lemelson. We have never been named a party to any such litigation. Some customers have requested that we indemnify them to the extent their liability for these claims arises from use of our equipment. We do not believe that products sold by us infringe valid Lemelson patents. If a claim for contribution were to be brought against us, we believe we would have valid defenses to assert and also would have rights to contribution and claims against our suppliers. We have not incurred any material liability with respect to the Lemelson claims or any other pending intellectual property claim to date and we do not believe that these claims will materially and adversely affect our business, financial condition or operating results. The ultimate outcome of any infringement or misappropriation claim that might be made, however, is uncertain and we cannot assure you that the resolution of any such claim would not materially and adversely affect our business, financial condition and operating results.

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

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

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

In the future, existing or new land use and environmental regulations may: (1) impose upon us the need for additional capital equipment or other process requirements, (2) restrict our ability to expand our operations, (3) subject us to liability for, among other matters, remediation, and/or (4) cause us to curtail our operations. We cannot assure you that any costs or liabilities associated with complying with these environmental laws will not materially and adversely affect our business, financial condition and operating results.

We have significant intangible assets and goodwill, which we are required to evaluate annually

In fiscal 2002 and 2003, we recorded substantial write-downs of goodwill. However, our financial statements continue to reflect significant intangible assets and goodwill. We are required to perform an impairment test at least annually to support the carrying value of goodwill and intangible assets. Should we be required to recognize additional intangible or goodwill impairment charges, our financial condition would be adversely affected.

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

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

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

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

Terrorist attacks, such as the attacks that occurred in New York and Washington, D.C. on September 11, 2001, or other acts of violence or war may affect the markets in which we operate and our profitability

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

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Changes in stock option accounting rules may adversely impact our reported operating results prepared in accordance with generally accepted accounting principles, our stock price and our competitiveness in the employee marketplace.

We have a history of using broad based employee stock option programs to hire, incentivize and retain our workforce. Currently, Statement of Financial Accounting Standards (SFAS) No. 123, Accounting for Stock-Based Compensation, allows companies the choice of either using a fair value method of accounting for options, which would result in expense recognition for all options granted, or using an intrinsic value method, as prescribed by Accounting Principles Board Opinion (APB) No. 25, Accounting for Stock Issued to Employees, with a pro forma disclosure of the impact on net income of using the fair value recognition method. We have elected to apply APB 25 and accordingly, we do not recognize any expense with respect to employee stock options as long as such options are granted at exercise prices equal to the fair value of our common stock on the date of grant.

In October 2004, the Financial Accounting Standards Board (FASB) concluded that SFAS No. 123R, Share-Based Payment, will be effective for public companies for interim or annual periods beginning after June 15, 2005. Under SFAS No. 123R, companies must measure compensation cost for all share-based payments, including employee stock options, using a fair value based method and these payments must be recognized as expenses in our statements of operations.

The implementation of SFAS No. 123R beginning in the fourth quarter of fiscal 2005 will have a significant adverse impact on our consolidated statement of operations because we will be required to expense the fair value of our stock options rather than disclosing the impact on results of operations within our footnotes in accordance with the disclosure provisions of SFAS No. 123 (see Note 1 of the Notes to Consolidated Financial Statements). This will result in lower reported earnings per share, which could negatively impact our future stock price. In addition, this could negatively impact our ability to utilize employee stock plans to recruit and retain employees and could result in a competitive disadvantage to us in the employee marketplace.

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Risks Relating to an Investment in the Notes and our Common Stock

We may be unable to generate enough cash to service our debt

Our ability to make payments on our indebtedness and to fund planned capital expenditures and other activities will depend on our ability to generate cash in the future. If our convertible debt is not converted to our common shares, we will be required to make annual cash interest payments of $1.7 million in each of fiscal years 2005 through 2008, $821 thousand in fiscal 2009 and $488 thousand in fiscal 2010 on our aggregate $270 million of convertible subordinated debt. Principal payments of $205.0 million and $65.0 million on the convertible subordinated debt are due in fiscal 2009 and 2010, respectively. Our ability to make payments on our indebtedness is affected by the volatile nature of our business, and general economic, competitive and other factors that are beyond our control. Our indebtedness poses risks to our business, including that:

- we must use a substantial portion of our consolidated cash flow from operations to pay principal and interest on our debt, thereby reducing the funds available for working capital, capital expenditures, acquisitions, product development and other general corporate purposes;
- insufficient cash flow from operations may force us to sell assets, or seek additional capital, which we may be unable to do at all or on terms favorable to us; and
- our level of indebtedness may make us more vulnerable to economic or industry downturns.

We cannot assure you that our business will generate cash in an amount sufficient to enable us to service interest, principal and other payments on our debt, including the notes, or to fund our other liquidity needs.

We are not restricted under the agreements governing our existing indebtedness from incurring additional debt in the future. If new debt is added to our current levels, our leverage and our debt service obligations would increase and the related risks described above could intensify.

Our stock price has been and is likely to continue to be highly volatile, which may significantly affect the trading price of the notes

In recent years, the price of our common stock has fluctuated greatly. These price fluctuations have sometimes been rapid and severe. Fluctuations in the trading price of our common stock will affect the trading price of the notes. The price of our common stock may continue to fluctuate greatly in the future due to a variety of factors, including:

- quarter to quarter variations in our operating results;
- differences in our revenue or earnings from levels expected by securities analysts as well as changes in their recommendations;

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- changes in the ratings of our notes;
- announcements of technological innovations or new products by us or other companies; and
- slowdowns or downturns in the semiconductor industry.

One or more of these factors could significantly harm our business and cause a decline in the price of our common stock in the public market, which could adversely affect your investment as well as our business and financial operations.

The price of our common stock also could be affected by possible sales of our common stock by investors who view the notes as a more attractive means of equity participation in our company and by hedging or arbitrage activity that may develop involving our common stock as a result of the issuance of the notes. The hedging or arbitrage could, in turn, affect the trading prices of the notes.

We have the ability to issue additional equity securities, which would lead to dilution of our issued and outstanding common stock, and the new equity securities that we may issue could include preferred stock that may have rights and preferences that are superior to the rights of holders of our common stock

The issuance of additional equity securities or securities convertible into equity securities will result in dilution of existing stockholders equity interests in us. Our board of directors has the authority to issue, without vote or action of stockholders, shares of preferred stock in one or more series, and has the ability to fix the rights, preferences, privileges and restrictions of any such series. Any such series of preferred stock could contain dividend rights, conversion rights, voting rights, terms of redemption, redemption prices, liquidation preferences or other rights superior to the rights of holders of our common stock. Our board of directors has no present intention of issuing any such preferred stock, but reserves the right to do so in the future. In addition, we are authorized to issue, without stockholder approval, up to an aggregate of 200 million shares of common stock, of which approximately 51.2 million shares were outstanding as of September 30, 2004. We are also authorized to issue, without stockholder approval, securities convertible into either shares of common stock or preferred stock.

We do not expect to pay dividends on our common stock in the foreseeable future

Although our shareholders may receive dividends if, as and when declared by our board of directors, we do not intend to pay dividends on our common stock in the foreseeable future. Therefore, you should not purchase our common stock if you need immediate or future income by way of dividends from your investment.

Our obligations under the notes are unsecured and subordinated to all of our existing and future senior debt

Our obligations under the notes are unsecured and rank junior in priority of payment to all of our present and future senior debt. As a result, upon any distribution to our creditors in a bankruptcy, liquidation or reorganization or similar proceeding relating to us or our property, the holders of our senior debt will be entitled to be paid in full before any payment may be made with respect to the notes. In the event of a bankruptcy, liquidation or reorganization or similar proceeding relating to us, holders of the notes will participate with trade creditors and all holders of our other subordinated indebtedness in the assets remaining after we have paid all of our senior debt. In addition, upon a payment default with respect to designated senior debt, a covenant default entitling designated senior debt to accelerate or upon acceleration of the notes, the holders of our senior debt will be entitled to be paid before any payment will be made on the notes or on our 0.5% Convertible

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Subordinated Notes due 2008. As of September 30, 2004, we had senior indebtedness outstanding in the amount of approximately $14.3 million. We also have or may incur new or additional obligations under letters of credit, guarantees, foreign exchange contracts or in other obligations contracts that would be senior to our obligations under the notes. The notes and the related indenture do not limit our ability, or our subsidiaries ability, to incur additional indebtedness, liabilities and obligations.

We may need to refinance all or a portion of our indebtedness on or before maturity. We cannot assure you that we will be able to refinance any of our indebtedness on commercially reasonable terms, if at all.

Creditors of our subsidiaries will get paid before you will get paid

Substantially all of our operations are conducted through our subsidiaries. Accordingly, we are dependent upon the cash flows of our subsidiaries to meet our debt obligations, including our obligations under the notes. The notes are not guaranteed by our subsidiaries and, consequently, our subsidiaries are not obligated or required to pay any amounts pursuant to the notes or to make funds available to us in the form of dividends or advances. In the future, we may change some portion of our business that we operate through our subsidiaries. Any payment of dividends, distributions, loans or advances by our subsidiaries will also be contingent upon our subsidiaries earnings, subject to statutory restrictions and possibly restricted by the contractual obligations of our subsidiaries.

In addition, our right to participate in any distribution of assets of any of our subsidiaries, upon any subsidiary s bankruptcy, liquidation, reorganization or similar proceeding, and thus your ability as a holder of the notes to benefit indirectly from such distribution, will be subject to the prior claims of creditors of that subsidiary, except to the extent that any of our claims as a creditor of such subsidiary may be recognized. As a result, the notes are structurally subordinated to all existing and future indebtedness and other liabilities and obligations, including trade payables, of our subsidiaries, if any. Therefore, holders of the notes should look only to our assets for payments on the notes. The notes and the related indenture do not limit the ability of any our subsidiaries to incur additional indebtedness, liabilities or obligations. As of September 30, 2004, our subsidiaries had approximately $95.9 million of liabilities outstanding, excluding inter-company liabilities.

If we terminate your right to convert your notes, you will have no right to receive shares of our common stock under the indenture, the value of the notes may decline and your investment may be adversely affected

Your conversion rights may be terminated on or after June 30, 2006. We have five trading days after a conversion termination trigger event to notify you that we are terminating your conversion rights. A conversion termination trigger event occurs if the closing price of our common stock has exceeded 140% of the conversion price then in effect for at least 20 trading days within a period of 30 consecutive trading days. You may convert your notes at any time on or before the 20th day following the date of our notice of termination of your conversion rights. If you fail to convert your notes on or before the 20^{th} day following the date of the notice, your right to convert the notes will terminate, you will thereafter have no rights to receive shares of our common stock under the indenture and the conversion provisions of the indenture will no longer be in effect. If you fail to convert your notes before termination of your right to convert, the value of your notes may decline and your investment may be adversely affected. See Description of Notes Termination of Conversion Right.

If we experience a fundamental change, we may be unable to purchase your notes as required under the indenture

Upon a fundamental change, as defined in the indenture, you will have the right to require us to purchase your notes for cash. A fundamental change would also require that we offer to purchase for cash our

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0.5% Convertible Subordinated Notes due 2008. If we experience a fundamental change and do not have sufficient funds to pay the purchase price for all of the notes tendered, this would constitute an event of default under the indenture governing the notes. In addition, a fundamental change may be prohibited or limited by, or create an event of default under, other agreements relating to borrowings that we may enter into from time to time, which are likely to be senior indebtedness. Therefore, a fundamental change at a time when we cannot pay for your notes that are tendered as a result of such fundamental change could result in your receiving substantially less than the principal amount of the notes. See Description of Notes Fundamental Change and Subordination of the Notes.

The notes are not protected by restrictive covenants

The indenture governing the notes does not contain any financial or operating controls or restrictions on the payment of dividends, the incurrence of indebtedness or the issuance or repurchase of securities by us or any of our subsidiaries. For example, the indenture does not restrict our ability in the future to enter into credit facilities that are senior to the notes. Also, the indenture does not contain covenants or other provisions to afford protection to holders of the notes in the event of a fundamental change involving us, except to the extent described under Description of Notes Fundamental Change.

In certain circumstances this registration statement may not be used to resell the notes and the common stock issuable upon their conversion; there is no prior public market for the notes, if an active trading market does not develop for the notes you may not be able to resell them

The notes and the common stock issuable upon conversion of the notes may only be offered or sold pursuant to an exemption from the registration requirements of the Securities Act or pursuant to an effective registration statement, such as the registration statement of which this prospectus forms a part. We may suspend the use of this registration statement for up to 45 days in any 3 month period or 90 days in any 12 month period under certain circumstances relating to pending corporate developments, public filings with the SEC and similar events. We also are permitted to suspend the use of the registration statement for up to 60 days in any 3 month period under certain circumstances relating to possible acquisitions, financings or similar transactions or reviews by the SEC of our filings. We cannot assure you that we, or events beyond our control, will not result in our suspending our registration of the notes or the common stock. Currently, there is no public market for the notes and we cannot assure you that an active trading market will ever develop for the notes. We also cannot assure you of the pricing at which you will be able to sell your notes if you are able to sell them at all. Future trading prices of the notes will depend on many factors, including, among other things, prevailing interest rates, our operating results and the market for similar securities. We do not intend to apply for listing of the notes on any securities exchange.

If you hold notes, you will not be entitled to any rights with respect to our common stock, but you will be subject to all changes made with respect to our common stock

If you hold notes, you will not be entitled to any rights with respect to our common stock (including, without limitation, voting rights and rights to receive any dividends or other distributions on our common stock), but you will be subject to all changes affecting the common stock. You will have rights with respect to our common stock only if and when we deliver shares of common stock to you upon conversion of your notes and, in limited cases, under the conversion rate adjustments applicable to the notes. For example, if we propose an amendment to our articles of incorporation requiring shareholder approval, and the record date for determining the shareholders of record entitled to vote on the amendment occurs before delivery of common stock to you, you will not be entitled to vote on the amendment, although you will nevertheless be subject to any changes in the powers, preferences or special rights of our common stock effected by the amendment, if adopted.

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The conversion rate of the notes will not be adjusted for all dilutive events

The conversion rate of the notes is subject to adjustment for certain limited events including, but not limited to, the issuance of stock dividends on our common stock, the issuance of certain rights or warrants, subdivisions and combinations of our common stock, certain distributions of assets, debt securities, capital stock or cash to holders of our common stock and certain issuer tender or exchange offers. See Description of Notes Conversion of the Notes. The conversion rate will not be adjusted for other events, such as an issuance of common stock for cash that may adversely affect the trading price of the notes or the common stock. We cannot assure you that an event that adversely affects the value of the notes, but does not result in an adjustment to the conversion rate, will not occur.

The notes may not be rated or may receive a lower rating than anticipated

We do not intend to seek a rating on the notes. However, if one or more rating agencies rates the notes and assigns the notes a rating lower than the rating expected by the investors, or reduces its rating in the future, the market price of the notes and our common stock would be harmed.

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USE OF PROCEEDS

We will not receive any proceeds from the sale by any selling securityholder of the notes or the underlying common stock.

RATIO OF EARNINGS TO FIXED CHARGES

The ratio of earnings to fixed charges for each of the periods indicated is as follows:

	Fiscal Years Ended September 30,				
	2000	2001	2002	2003	2004
Ratio of earnings to fixed charges	18X				6X

These computations include us and our consolidated subsidiaries. These ratios are computed by dividing (a) income (loss) before taxes from continuing operations plus fixed charges and equity in loss of joint ventures by (b) fixed charges, which includes interest expense plus the portion of rent expense under operating leases we deem to be representative of the interest factor and amortization of debt issue costs.

We would have had to generate additional earnings of $77.9 million in fiscal 2001, $233.6 million in fiscal 2002 and $46.4 million in fiscal 2003 to achieve a ratio of 1:1.

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PRICE RANGE OF COMMON STOCK

Our common stock is listed and traded on the Nasdaq National Market under the symbol KLIC. The following table sets forth, for the periods indicated, the range of high and low per share sale prices for our common stock. On December 13, 2004, the last reported sale price of our common stock was $8.51 per share.

	Common Stock Price	
	High	Low
Year ended September 30, 2003:		
First Quarter	$ 6.74	$ 1.91
Second Quarter	7.59	4.39
Third Quarter	8.00	4.61
Fourth Quarter	13.25	5.99
Year ended September 30, 2004:		
First Quarter	$ 17.20	$ 10.83
Second Quarter	16.72	10.51
Third Quarter	12.80	9.61
Fourth Quarter	10.95	4.80
Year ended September 30, 2005:		
First Quarter (as of December 13, 2004)	$ 9.30	$ 5.70

As of December 10, 2004, we had approximately 533 stockholders of record.

DIVIDEND POLICY

The payment of dividends on our common stock is within the discretion of our board of directors. We have not historically paid 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.

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CAPITALIZATION

The following table shows our unaudited cash, cash equivalents and short-term investments, and capitalization as of September 30, 2004 on an actual basis. This table should be read in conjunction with our financial statements, related notes and the other information included or referred to in this prospectus.

	As of September 30, 2004 (in thousands, except share data)
Cash, cash equivalents and short-term investments	$ 92,509
Restricted cash	$ 3,257
Short-term obligations:	
Current portion of long-term debt	$ 202
Long-term obligations:	
1% Convertible Subordinated Notes due 2010	65,000
0.5% Convertible Subordinated Notes due 2008	205,000
Bank borrowings, net of current portion	5,400
Capitalized leases, net of current position	325
Other long-term liabilities	45,087
Total long-term obligations	320,812
Stockholders equity:	
Preferred Stock, without par value; 5 million shares authorized; none issued or outstanding	
Common Stock, without par value; 200 million shares authorized; 51,162,259 issued and outstanding(1)	213,847
Retained Deficit	139,912
Accumulated other comprehensive loss	(6,915)
Total Stockholders Equity	67,020
Total Capitalization	$ 388,034

(1) Excludes (i) 8.7 million shares as of September 30, 2004 issuable upon exercise of outstanding stock options, (ii) 10.1 million shares issuable upon conversion of the 0.5% Convertible Subordinated Notes due 2008 and (iii) 5.1 million shares issuable upon conversion of the notes.

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BUSINESS

We design, manufacture and market capital equipment, packaging materials and test interconnect products as well as service, maintain, repair and upgrade equipment, all used to assemble and/or test semiconductor devices. We are currently the world s leading supplier of semiconductor wire bonding assembly equipment, according to VLSI Research, Inc. Our business is currently divided into three product segments:

- equipment;
- packaging materials; and
- wafer and package test interconnect products.

We completed the divestiture of our former advanced packaging technologies segment in February 2004.

Our goal is to be both the technology leader and the lowest cost supplier in each of our major lines of business. We believe we are the only major supplier to the semiconductor assembly industry that can provide customers with semiconductor wire bonding equipment along with the complementary packaging materials and test interconnect products that actually contact the surface of the customer s semiconductor devices. We believe that the ability to control all of these assembly related products provides us with a significant competitive advantage, and should allow us to develop system solutions to the new technology challenges inherent in assembling and packaging next-generation semiconductor devices.

The semiconductor industry has been historically volatile, with periods of rapid growth followed by downturns. In response to recent downturns, we shifted our strategy, focusing on our larger, more established product lines, and divesting or discontinuing smaller or more speculative businesses. Additionally, we continuously seek to further reduce our cost structure by moving operations to lower cost areas, moving away from non-core businesses, and increasing productivity. We believe the historical volatility of the semiconductor industry both upward and downward will persist.

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. We maintain a website with the address www.kns.com. We are not including the information contained on our website as a part of, or incorporating it by reference into, this filing. We make available free of charge (other than an investor s own Internet access charges) on or through our website our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and all amendments to these reports, as soon as reasonably practicable after the material is electronically filed with or otherwise furnished to the Securities and Exchange Commission.

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Products and Services

We offer a range of wire bonding equipment and spare parts, packaging materials, and test interconnect products. Set forth below is a table listing the net sales from continuing operations for each business segment for our fiscal years ended September 30, 2002, 2003, and 2004:

	(in thousands)		
	Fiscal Year Ended September 30,		
	2002	**2003(1)**	**2004**
	Net Sales	**Net Sales**	**Net Sales**
Equipment	$ 169,469	$ 198,447	$ 361,244
Packaging materials	157,176	174,471	234,690
Test interconnect	114,698	104,882	121,877
Other(2)	222	135	
	$ 441,565	$ 477,935	$ 717,811

(1) In the fourth quarter of fiscal 2003, we sold the assets related to the saw and hard material blade businesses that were part of the equipment segment and packaging materials segment, respectively. Those businesses together had fiscal 2003 revenue of $11.3 million.

(2) Comprised of sales associated with our substrate business that was closed in fiscal 2002.

Our equipment sales are highly volatile, based on the semiconductor industry s need for new capability and capacity, whereas packaging materials and test interconnect sales in general tend to be more stable, following the trend of total semiconductor unit production.

See Note 13 to our Consolidated Financial Statements for financial results by business segment and sales by geographic location.

Equipment

We manufacture and market a line of wire bonders, which are used to connect very fine wires, typically made of gold, aluminum or copper, between the bond pads of a semiconductor die and the leads on the integrated circuit (IC) package to which the die has been attached. We believe that our wire bonders offer competitive advantages by providing customers with high productivity/throughput and superior package quality/process control. In particular, our machines are capable of performing very fine pitch bonding as well as creating the sophisticated wire loop shapes that are needed in the assembly of advanced semiconductor packages. Our principal products are:

Ball Bonders. Automatic IC ball bonders represent a large majority of our semiconductor equipment business. As part of our competitive strategy, we have been introducing new models of IC ball bonders every 15 to 24 months, with each new model designed to increase both productivity and process capability compared to its predecessor. In May 2002, we began marketing the Maxum IC ball bonder, which offered up to 20% more productivity than its predecessor. In the second quarter of fiscal 2004, we began shipping the Maxum Plus to customers offering further productivity increases, as well as process capability improvements. In addition, in January of 2003, we began shipping the Nu-Tek , a new automatic wire bonder optimized for low lead count ICs and discrete device applications, which are both segments of the market where we had not previously participated.

Specialty Wire Bonders. We also produce other models of wire bonders, targeted at specific market niches, including: the Model 8098, a large area ball bonder designed for wire bonding hybrid, chip on board, and other large area applications; the WaferPRO Plus , for wafer level bumping for area array applications; the Triton RDA , a wedge bonder designed for ribbon bonding; and the Model 8090, a large area wedge bonder. We also manufacture and market a line of manual wire bonders.

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We believe that our industry knowledge and technical experience have positioned us to deliver innovative, customer-specific offerings that reduce the cost of owning our equipment over its useful life. In response to customer trends in outsourcing packaging requirements, we provide repair and maintenance services, a variety of equipment upgrades, machine and component rebuild activities and expanded customer training through our customer operations group.

Packaging Materials

We manufacture and market a range of semiconductor packaging materials and expendable tools for the semiconductor assembly market, including very fine gold, aluminum and copper wire, capillaries, wedges, die collets and saw blades, all of which are used in packaging and assembly processes. Our packaging materials are designed for use on both our own and our competitors assembly equipment. A wire bonder uses a capillary or wedge tool and bonding wire much like a sewing machine uses a needle and thread. Our principal products are:

Bonding Wire. We manufacture very fine gold, aluminum and copper wire used in the wire bonding process. This wire is bonded to the chip surface and package substrate by the wire bonder and becomes a permanent part of the customer s semiconductor package. We produce wire to a wide range of specifications, which can satisfy most wire bonding applications across the spectrum of semiconductor packages.

Expendable Tools. Our expendable tools include a wide variety of capillaries, wedges, die collets and wafer saw blades. The capillaries and wedges actually attach the wire to the semiconductor chip, allow a precise amount of wire to be fed out to form a permanent wire loop, then attach the wire to the package substrate, and finally cut the wire so that the bonding process can be repeated again. Die collets are used to pick up and place die into packages before the wire bonding process begins. Our hub blades are used to cut silicon wafers into individual semiconductor die.

Test Interconnect

We offer a broad range of fixtures used to temporarily contact a semiconductor device while it is still in the wafer format (wafer probing), thereby providing electrical connections to automatic test equipment. We also offer test sockets used to test the final semiconductor package (package or final testing). Our principal test interconnect products are:

Probe cards. Probe cards consist of complex, multilayer printed circuit boards (PCB) upon which are attached numerous probe needles designed to make temporary contact to each of the bond pads or bumps on a die while the die is still in a wafer format, providing electrical connections to automatic test equipment.

Automatic Test Equipment (ATE) interface assemblies. ATE interface assemblies typically consist of electro-mechanical assemblies, electrical contactors and intricate multilayer PCBs, which mechanically and electrically connect to the ATE test prober and carry electrical signals to a probe card, and ultimately the semiconductor device under test.

Test sockets. Test sockets hold packaged semiconductor devices while making electrical connections to their leads through spring loaded contacts.

Changes in the design of a semiconductor device often require changes in the probe card, test socket and, in certain cases, the ATE interface assembly used to test that semiconductor. Customers generally purchase new versions of these custom-designed products each time there is a design change in the semiconductor being tested. Changes in semiconductor design and processes drive improvements in test interconnect technology in order to support significant increases in the number and density of bond pads or leads being tested and the speed of the electrical signals being tested.

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Customers

Our major customers include large semiconductor manufacturers and their subcontract assemblers and vertically integrated manufacturers of electronic systems. Customers may vary from year-to-year based on their capital investment and operating expense budgets. The chart below shows our top ten end-use customers, based on net sales, for each of the last three fiscal years:

Fiscal 2002	Fiscal 2003	Fiscal 2004
1. Advanced Semiconductor Engineering *	1. Advanced Semiconductor Engineering*	1. Advanced Semiconductor Engineering*
2. ST Microelectronics	2. ST Microelectronics	2. ST Microelectronics
3. Siliconware Precision Industries	3. Intel	3. Texas Instruments
4. Intel	4. Amkor Technologies	4. Intel
5. Texas Instruments	5. Texas Instruments	5. Siliconware Precision Industries
6. Infineon Technologies	6. Infineon Technologies	6. Spansion
7. Amkor Technologies	7. National Semiconductor	7. National Semiconductor
8. National Semiconductor	8. Philips Electronics	8. ST Assembly Test
9. Samsung	9. ST Assembly Test	9. Infineon Technologies
10. Philips Electronics	10. Siliconware Precision Industries	10. Amkor Technologies

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

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

International Operations

We sell our products to semiconductor manufacturers, semiconductor subcontract assemblers, and vertically integrated manufacturers of electronic systems, which are primarily located in or have operations in the Asia/Pacific region. Approximately 86% of our fiscal 2004 net sales, 80% of our fiscal 2003 net sales, and 74% of our fiscal 2002 net sales were for delivery to customer locations outside of the United States. The majority of these foreign sales were destined for customer locations in the Asia/Pacific region, including Taiwan, Malaysia, Singapore, Korea, Japan, China and the Philippines. We expect sales outside of the United States to continue to represent a majority of our future revenues.

A majority of our manufacturing operations also are in countries other than the U.S., including major manufacturing operations located in Singapore, Israel, and China and other smaller facilities in France, Japan, Scotland, Switzerland and Taiwan. 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, terrorism, war, civil disturbances, expropriation, and other events that may limit or disrupt markets.

Sales and Customer Support

We believe that providing comprehensive worldwide sales, service, training and support are important competitive factors in the semiconductor equipment industry, and we manage these functions through our global customer operations group. Some of these operations are focused on wire bonders and packaging materials, and others focus on test related products. We rely on a combination of a direct sales force, manufacturers representatives and distributors for the sale of our various product lines. In order to support our customers whose semiconductor assembly operations are located primarily outside of the United States, we have sales, service, and support personnel based in China, Hong Kong, Japan, Korea, Malaysia, the Philippines, Singapore, Taiwan and Europe, and applications labs in Singapore, Japan, Israel, Taiwan, and Germany. We provide timely customer service and support by positioning our service representatives and spare parts near customer facilities, and afford 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, 2004, we had a backlog of customer orders totaling $59.7 million, compared to $104.0 million at June 30, 2004 and $59.9 million at September 30, 2003. Our backlog consists of customer orders 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. For example, on August 10, 2004, we announced that discussions with customers indicated a general slowing in the rate of semiconductor growth. As a result, some of these customers requested that we delay the shipment of wire bonders previously ordered and included in our backlog of customer orders at June 30, 2004.

Manufacturing

The Company believes excellence in manufacturing can create a competitive advantage, both through lower costs and superior responsiveness. In order to achieve these goals, we manage our manufacturing operations through a single organization and are trending to fewer, larger factories to take advantage of economies of scale and the cost savings available in low labor cost areas.

Equipment. Our equipment manufacturing activities consist primarily of integrating outsourced parts and subassemblies, and testing the finished product to customer specifications. During fiscal 2004, most of our equipment manufacturing took place in Singapore, with a small number of machines built in Willow Grove, Pennsylvania. We believe the outsourcing model enables us to minimize our fixed costs and capital expenditures and focus on product differentiation through technology innovations in system design and manufacturing quality control. Just-in-time inventory management has reduced our manufacturing cycle times and reduced our on-hand inventory requirements. We have received ISO 9001 certification for our equipment manufacturing facility in Singapore.

Packaging Materials. We manufacture expendable tools at facilities in Yokneam, Israel and Suzhou, China, and bonding wire at facilities in Singapore and Thalwil, Switzerland. We manufacture blades for wafer sawing in Santa Clara, California. Our bonding wire facility in Switzerland has received ISO 9001 certification; our bonding wire facility in Singapore has received QS9000 and ISO 14001 certifications; our blade facility in California has received ISO 9002 certification; our bonding tools facility in Yokneam, Israel has received ISO 9001 and ISO 14001 certifications; and our bonding tools facility in Suzhou, China has received ISO 9001 and ISO 14001 certifications.

Test Interconnect Products. We manufacture test probe cards in various facilities located in: Gilbert, Arizona; Hayward and San Jose, California; Hsin Chu, Taiwan; East Kilbride, Scotland; Singapore; Suzhou, China; and Corbeil, France. We manufacture ATE interface assemblies in Gilbert, Arizona and test sockets in Hayward, California and Singapore. As part of our ongoing cost reduction activities, we sold our ATE test board fabrication assets in Dallas, Texas in the third quarter of fiscal 2003 and moved to an outsource strategy for these components, and in fiscal 2004 we closed a test manufacturing facility in Meyreuil, France.

Research and Product Development

Many of our customers generate technology roadmaps describing the future manufacturing capability requirements needed to support their product development plans. Our research and product development activities are organized so that our products anticipate our customers requirements. This can happen either through continuous improvement of our existing products, including upgrades for products already installed in customers facilities, or through the creation of next-generation products. Examples of our continuous improvement strategy include the Nutek and Maxum Plus wire bonders mentioned above - both improvements of the Maxum - our advanced epoxy line of probe cards, and our DuraCap line of bonding tools. Major next-generation development is underway for our wire bonder, probe card and test socket product lines. Whether we proceed via continuous improvement, or via next-generation technology development, our goal is technology leadership in each of our major product lines.

Our net expenditures for research and development totaled approximately $34.6 million, $38.1 million, and $51.9 million during our fiscal years ended September 30, 2004, 2003 and 2002, respectively.

Competition

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

Wire bonders: ASM Pacific Technology and Shinkawa

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

- Bonding tools: Gaiser Tool Co., Small Precision Tools, Inc. and PECO
- Saw blades: Disco Corporation
- Bonding wire: Tanaka Electronic Industries, Sumitomo Metal Mining, Heraeus, and Nippon Metal.

Our test products face competition from a few large international firms as well as many small regional firms. Significant competitive factors in the test interconnect industry include performance, price, delivery time, product life, and quality. Our significant competitors include:

- Wafer test: FormFactor, Inc., Japan Electronic Materials, and Micronics Japan Company
- Package test: Everett Charles, Synergetix, Johnstech International, Enplas Semiconductor

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 have greater financial, engineering, manufacturing and marketing resources than we have. Some of our competitors are Asian and European 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.

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. We believe that our portfolio of patents will have more value in the future but 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 trade secrets and proprietary software. As long as we rely on trade secrets and unpatented knowledge, including software, to maintain our competitive position, we cannot assure you that competitors may not independently develop similar technologies and possibly obtain patents containing claims applicable to our products and processes. Our ability to defend ourselves against these claims may be limited. 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, or that they can be enforced.

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 upon us 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.

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Employees

At September 30, 2004, we had 3,186 permanent employees and 108 temporary and contract workers worldwide. The only employees represented by a labor union are the bonding wire employees in Singapore. 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 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.

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Property

Our major operating facilities are described in the table below:

Facility	Approximate Size	Function	Products Manufactured	Lease Expiration Date
Willow Grove, Pennsylvania	220,000 sq.ft. (1)	Corp. headquarters, manufacturing, technology center, sales and service	Wedge, large area bonders	May 2006
Suzhou, China	134,700 sq.ft. (1)	Manufacturing	Capillaries, probe cards	October 2007
Singapore	84,800 sq.ft. (1)	Manufacturing, technology center, assembly systems	Wire bonders, probe cards	August 2005
Gilbert, Arizona	83,000 sq.ft. (1)	Manufacturing, sales and service	Probe cards, ATE interface assemblies	May 2012
Yokneam, Israel	53,800 sq.ft. (2)	Manufacturing, technology center	Capillaries, wedges, die collets	N/A
Singapore	38,400 sq.ft. (1)	Manufacturing	Bonding wire	May 2006
Hsin Chu, Taiwan	36,800 sq.ft (1)	Manufacturing	Probe cards	July 2007
Hayward, California	35,900 sq.ft. (1)	Manufacturing, sales and service	Test sockets, contactors	September 2005
San Jose, California	34,100 sq.ft. (1)	Manufacturing, sales and service	Probe cards	August 2007
Thalwil, Switzerland	15,100 sq.ft. (1)	Manufacturing	Bonding wire	(3)

(1) Leased.

(2) Owned

(3) Cancelable semi-annually upon six months notice.

We also rent space for sales and service offices in: Santa Clara, California; Southbury, Connecticut; Austin, Texas; China; Germany; Hong Kong; Japan; Korea; Malaysia; the Philippines; Taiwan; and Thailand and operate smaller manufacturing facilities in Santa Clara, California; France; and Scotland. We believe that our facilities generally are in good condition.

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MANAGEMENT

Directors and Executive Officers

Brian R. Bachman has been a director of our Company since 2003. His present term expires in 2008. Mr. Bachman is a private investor. From 2000 to 2002, Mr. Bachman served as Chief Executive Officer and Vice Chairman of Axcelis Technologies, which produces equipment used in the fabrication of semiconductors, and from 1996 to 2000, he served as Senior Vice President and Group Executive of Eaton Corporation, an industrial manufacturing company. From 1991 to 1995, Mr. Bachman served as Vice President and Business Group General Manager of Philips Semiconductors, a semiconductor supplier. He currently serves as a director of Keithley Instruments and Ultra Clean Technology. Mr. Bachman is 59 years old.

Philip V. Gerdine, Ph.D. (since 1964) and Certified Public Accountant (since 1973) has been a director of our Company since 2000. His present term expires in 2008. Mr. Gerdine is an independent consultant in finance and international operations. From 1988 to September 1998, Mr. Gerdine served as Executive Director of Siemens Aktiengesellschaft, a German multinational company that designs, develops and manufactures systems and products for the communications, power generation and distribution, electronics, medical equipment and allied industries. Mr. Gerdine was also Managing Director of The Plessey Company, PLC, a British engineering firm which manufactured telecommunications products for the global market and defense electronics and semiconductor products largely for the commonwealth markets. He also has been Manager of Acquisitions and Mergers for General Electric Company and has held other senior management positions with Price Waterhouse and The Boston Consulting Group. Mr. Gerdine has held teaching positions in finance and accounting at Fordham Graduate School and other institutions. Mr. Gerdine also serves as a director of Applied Materials, Inc. Mr. Gerdine is 65 years old.

C. Scott Kulicke has been the Chief Executive Officer of our Company since 1979 and Chairman of the Board of Directors since 1984. His present term as a director expires in 2007. He first became an officer of the Company in 1976 and has held a number of executive positions with us since that time. Mr. Kulicke is 55 years old.

John A. O Steen has been a director of our Company since 1988. His present term expires in 2006. Mr. O Steen served as Executive Vice President, Business Development (March, 2003 May, 2004), Executive Vice President of Operations (July 1998 to February 2003) and Executive Vice President (January to June 1998) of Cornerstone Brands, Inc., a consumer catalog company. From 1991 to 1998, Mr. O Steen served as Chairman and Chief Executive Officer of Cinmar, L.P., a mail order catalog company that was acquired by the predecessor of Cornerstone Brands in September 1995. Before that time, Mr. O Steen served as President, Chief Executive Officer and a director of Cincinnati Microwave, Inc., a manufacturer of electronic products. He currently serves as a director of Cornerstone Brands, Inc. and Riggs Heinrich Media, Inc. Mr. O Steen is 60 years old.

Allison F. Page has been a director of our Company since 1962. His present term expires in 2005. Mr. Page is a retired partner in the Philadelphia law firm of Pepper Hamilton LLP. Mr. Page is 81 years old.

MacDonell Roehm, Jr. has been a director of our Company since 1984. His present term expires in 2006. Mr. Roehm is Chairman and Chief Executive Officer of Crooked Creek Capital LLC, a provider of strategic, operational and financial restructuring services, a position he has held since 1998. From September 2002 to April 2003, Mr. Roehm also served as Chief Executive Officer of CH4 Gas Limited, a natural resources company. From 2000 to 2001, Mr. Roehm served as Chairman and Chief Executive Officer of Mackenzie-Childs Ltd., a manufacturer and retailer of furniture and home accessories. Mr. Roehm was hired by Mackenzie-Childs Ltd. to implement remedial action plans, and on November 28, 2000, Mackenzie-Childs Ltd. filed a voluntary petition under Chapter 11 of the United States Bankruptcy Code, seeking reorganization to provide a framework under which those remedial action plans could be executed. From 1999 to 2000, Mr. Roehm served as Chairman of Australian Ventures LLC, a private equity fund. From 1994 until 1998, Mr. Roehm served as Chairman, President and Chief Executive Officer of Bill s Dollar Stores, Inc., a chain of retail convenience stores. Before that time, he served as Managing Director of AEA Investors, Inc., a private investment firm. Mr. Roehm also serves as a director of CH4 Gas Limited. Mr. Roehm is 65 years old.

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Barry Waite has been a director of our Company since 2003. His present term expires in 2007. From May 1998 until his retirement in May 2002, Mr. Waite served as President and Chief Executive Officer of Chartered Semiconductor, a major wafer foundry. From 1982 to 1998, Mr. Waite held positions of increasing responsibility with Motorola Corporation, Semiconductor Products Sector, including Senior Vice President and General Manager, Europe, Middle East and Africa (1997 to 1998) and Senior Vice President and General Manager Microprocessor and Memory Technology Group (1993-1997). Mr. Waite serves as a director of ZETEX PLC and is senior advisor to Investor Growth Capital, a New York investment fund. Mr. Waite is 56 years old.

C. William Zadel has been a director of our Company since 1989. His present term expires in 2005. In December of 2004, Mr. Zadel retired from Mykrolis Corporation. From August of 2001 until December of 2004, Mr. Zadel was Chairman and Chief Executive Officer of Mykrolis Corporation, a multinational company focused on developing, manufacturing and marketing technically advanced filtration, purification and control products for the global semiconductor industry. Mykrolis is the former microelectronics division of Millipore Corporation. Before becoming Chief Executive Officer of Mykrolis at its separation from Millipore in August 2001, Mr. Zadel was Chairman and Chief Executive Officer of Millipore since April of 1996. He currently serves as a director of Matritech, Inc. Mr. Zadel is 61 years old.

Charles Salmons holds the position of Senior Vice President, Wafer Test. He was appointed to this position in November 2004. He was appointed Senior Vice President, Product Development in September 2002. He joined us in 1978, and has held positions of increasing responsibility throughout the accounting, engineering and manufacturing organization. Mr. Salmons first became an officer of the Company in 1992, and in 1994, he became Vice President of Operations and was named General Manager, Wire Bonder Operations in 1998. He was appointed Senior Vice President, Customer Operations in 1999. Mr. Salmons is 49 years old.

Jack G. Belani holds the position of Vice President of Wire Bonding and Corporate Marketing. He was appointed to this position in November 2004. Before this, he was Vice President of all the Business Units and Marketing and prior to that he was President of the Wire Bonding Division and before that President of XLAM which was our high density substrate group. He became an officer of the Company upon joining us in April 1999 as Vice President and President of our high density substrate group. Before joining us, he served for more than three years in the Worldwide Manufacturing Group of Cypress Semiconductor Corporation, a supplier of integrated circuits for network infrastructure and access equipment, where he was Vice President of Assembly and Packaging when he left to join us. Before Cypress, he was with National Semiconductor Corporation for approximately 18 years in a variety of technical and managerial positions and one year with Advanced Micro Devices as a Bipolar Memory Wafer Fabrication Process Development Engineer. Mr. Belani is 51 years old.

Maurice E. Carson holds the position of Vice President, Chief Financial Officer. He was appointed to this position when he joined us in September 2003. From 1996 until he joined us in 2003, Mr. Carson served in various finance positions culminating as the Vice President, Finance and Corporate Controller for Cypress Semiconductor Corporation. Before Cypress he was with Ephigraphx as the Chief Operating Officer. Mr. Carson is 47 years old.

Bruce Griffing holds the position of Vice President, Engineering. He was appointed to this position when he joined us in September 2004. From 2001-2003 Dr. Griffing served as Vice President and Chief Technology Officer of DuPont Photomask, a company that provides microimaging solutions. Before DuPont Photomask, Dr. Griffing worked for General Electric from 1979-2001, serving as a Laboratory Manager from 1986 to 2001. Dr. Griffing received his Ph.D in Physics from Purdue University in 1979. Dr. Griffing is 54 years old.

Oded Lendner holds the position of Vice President, Package Test. He was appointed to this position in November 2004. He was appointed to the position of Vice President, World Wide Operations in January 2002. Before this he was President of our Microelectronics division for one year. He joined our Israeli subsidiary in 1989 and has held positions of increasing responsibility throughout our manufacturing organization, and was named Deputy Managing Director, Operations in Israel in 1993. He relocated to the United States and first became an officer of the Company in 1996 as the Vice President, Operations for the Equipment group. In 1999, he became Vice President, Ball Bonder Business unit and Managing

Director of K&S Singapore. Mr. Lendner is 44 years old.

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Executive Compensation

Summary Compensation Table

The following table sets forth information with respect to the compensation received by the Chief Executive Officer and the four other most highly compensated executive officers of the Company who were serving as executive officers at September 30, 2004 (collectively, the named executive officers) for the fiscal year ended September 30, 2004 (Fiscal 2004), as well as the compensation received by each such individual for the Company s previous two fiscal years (Fiscal 2003 and Fiscal 2002, respectively), if applicable.

		Annual Compensation			Long Term Compensation Awards	
Name and Principal Position	**Fiscal Year**	**Salary**	**Bonus**[1]	**Other Annual Compensation**[2]	**Securities Underlying Options**	**All Other Compensation**[3]
C. Scott Kulicke	2004	$ 486,663	$ 337,577	$ 20,973	76,000	$ 19,500
Chairman of the Board and	2003	$ 424,578		$ 11,489	81,000	$ 18,000
Chief Executive Officer	2002	$ 424,580		$ 16,596	111,500	$ 16,500
Oded Lendner	2004	$ 306,433	$ 102,119	$ 11,122	41,000	$ 14,142
Vice President, Package Test	2003	$ 272,689		$ 8,982	41,000	
	2002	$ 278,458		$ 13,247	26,200	
Charles Salmons	2004	$ 272,512	$ 140,811	$ 3,660	41,000	$ 21,058
Senior Vice President,	2003	$ 248,553		$ 12,030	31,000	$ 18,966
Wafer Test	2002	$ 212,498		$ 11,850	42,000	$ 13,976
Jagdish (Jack) G. Belani	2004	$ 269,704	$ 142,762	$ 4,077	41,000	$ 7,224
Vice President of Wire	2003	$ 238,618		$ 12,218	31,000	$ 3,860
Bonding and Corporate	2002	$ 204,000			43,000	$ 4,402
Marketing						
Maurice E. Carson[4]	2004	$ 246,926	$ 127,301	$ 3,646		$ 71,928
Vice President and Chief	2003	$ 4,519		$ 29	100,000	
Financial Officer						

(1) These amounts represent incentive payments to the named executive officers as participants in the Company s Executive Incentive Compensation Plan for the fiscal year indicated.

(2) These amounts represent the (i) imputed taxable value of Company automobiles used by the executive officers and/or automobile allowances, (ii) the taxable value of certain life insurance benefits provided to the named executive officers, and (iii) for Mr. Kulicke and Mr. Lendner, the difference between the purchase price paid by the executive officer and the fair value of automobiles purchased from the Company in Fiscal 2004 in the amounts of $16,050 and $7,375, respectively. The Company discontinued its program of providing automobiles or automobile allowances to officers, effective January 1, 2004.

(3) These amounts represent the Company s matching contribution to its 401(k) Incentive Savings Plan for each of the named executive officers, and in Fiscal 2004, reimbursed relocation costs for Mr. Carson.

(4) Mr. Carson joined the Company in September, 2003.

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Option Grants in Fiscal 2004

The following table sets forth information with respect to stock option grants by the Company to the named executive officers in Fiscal 2004.

Name	Individual Grants: Number of Shares Underlying Options Granted[(1)]	% of Total Options Granted to Employees in Fiscal Year[(2)]	Exercise Price Per Share	Expiration Date	Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term[(3)]: 5%	10%
C. Scott Kulicke	76,000	3.7%	$ 12.05	10/7/2013	$ 575,942	$ 1,459,549
Oded Lendner	41,000	2.0%	$ 12.05	10/7/2013	$ 310,705	$ 787,388
Charles Salmons	41,000	2.0%	$ 12.05	10/7/2013	$ 310,705	$ 787,388
Jagdish (Jack) G. Belani	41,000	2.0%	$ 12.05	10/7/2013	$ 310,705	$ 787,388
Maurice E. Carson		N/A	N/A	N/A	N/A	N/A

(1) The options granted to named executive officers in Fiscal 2004 were granted under the Company s 2001 Employee Stock Option Plan and generally become exercisable commencing one year from the date of grant in installments of 25% per year.

(2) The Company granted options to employees to purchase a total of 2,050,554 shares during Fiscal 2004.

(3) These amounts represent hypothetical gains that could be achieved for the respective options if exercised at the expiration date of the option. These gains are based on assumed rates of stock appreciation of 5% and 10% compounded annually from the date the respective options were granted to their expiration date.

Aggregated Option Exercises in Fiscal 2004 and 2004 Fiscal Year-End Option Values

The following table sets forth information with respect to the aggregate option exercises by each named executive officer in Fiscal 2004 and the value of unexercised in-the-money options held by each named executive officer at the end of Fiscal 2004, respectively.

	Number of Shares Underlying Unexercised	Value of Unexercised In-the-Money Options at Fiscal Year-End[(1)]

Name	Shares Acquired on Exercise	Value Realized	Options at Fiscal Year-End			
			Exercisable	Unexerciable	Exercisable	Unexercisable
C. Scott Kulicke	20,000	$ 121,974	774,950	220,150	$ 234,027	$ 164,025
Oded Lendner			102,595	83,825	$ 20,925	$ 62,775
Charles Salmons			144,590	95,650	$ 20,925	$ 62,775
Jagdish (Jack) G. Belani			116,850	94,550	$ 20,925	$ 62,775
Maurice E. Carson			25,000	75,000		

(1) In-the-money options are those where the fair value of the underlying shares exceeds the exercise price of the option. The closing price of the Company s Common Shares on September 30, 2004, the last trading day during Fiscal 2004, was $5.65 per share.

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Pension Plan

The Company has a tax-qualified defined benefit pension plan, which covered U.S. employees who had reached age 21 and completed one year of service. Effective December 31, 1995, benefit accruals under the Company s pension plan were frozen. Retirement benefits under this pension plan are determined under a formula based on length of service and average compensation in the three consecutive calendar years during the ten year period ended December 31, 1995, producing the highest average (subject to certain Internal Revenue Code limits). Assuming the individual survives until age 65 and begins to receive payments at age 65 in the form of an annuity, the named executives would receive the following annual amounts under the pension plan: C. Scott Kulicke - $57,996; Charles Salmons - $22,097; and Jagdish G. (Jack) Belani, Maurice E. Carson, and Oded Lendner - $0.

Employment Contracts, Termination of Employment and Change in Control Arrangements

The Company has Termination of Employment Agreements with its executive officers which provide that in the event of certain changes in control, as defined in the agreements, the officer who is a party to such agreement and whose employment terminates, other than voluntarily or for cause, within 18 months after such change in control, will be entitled to termination pay equal to the lesser of a specified number of months target total cash compensation (base salary plus incentives) for the year in which the change in control occurs or $10 less than the amount which would subject the officer to excise tax with respect to such payment under Section 4999 of the Internal Revenue Code or would make payment thereof non-deductible by the Company under Section 280G of the Code. Such agreements are all currently scheduled to expire on December 31, 2006, unless extended. The named executive officers Termination of Employment Agreements provide for payment of the following number of months target total cash compensation: Mr. Kulicke, 30 months and Messrs. Belani, Carson, Lendner, and Salmons, 18 months.

Under the Company s 2001 Employee Stock Option Plan (2001 Plan), the 1998 Employee Stock Option Plan (1998 Plan) and the 1994 Employee Stock Option Plan (1994 Plan), in the event of a change in control of the Company (as defined in those plans), all outstanding options become fully vested and exercisable. Under the Company s 1997 Non-Qualified Stock Option Plan for Non-Employee Directors (the 1997 Director Plan), if the Company is a party to any merger in which it is not the surviving entity, or any consolidation or dissolution, all outstanding options will terminate and the optionee will receive, in cash, from the Company an amount equal to the fair market value of the Common Shares subject to his or her outstanding options less the amount which would be required to exercise such options. Under the Company s 1988 Employee Stock Option Plan and 1988 Non-Qualified Stock Option Plan for Non-Officer Directors (the 1988 Director Plan), if the Company is a party to any merger in which it is not the surviving entity, or any consolidation or dissolution, all outstanding options will terminate and the optionee will receive, in cash, from the Company an amount equal to the fair market value of the Common Shares subject to then exercisable options less the amount which would be required to exercise such options.

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Compensation of Directors

In Fiscal 2004, the Board of Directors met seven times. During Fiscal 2004, Directors who were not officers of the Company received a quarterly retainer of $3,000, plus $2,000 for each meeting of the Board attended in person and $1,000 for each telephone meeting of the Board attended. Committee Chairmen also were paid an annual retainer of $2,000, and committee members were paid $1,000 for each committee meeting not held on the date of a Board meeting. Effective October 1, 2004, Directors who are not officers of the Company receive a quarterly retainer of $5,000, plus $2,000 for each meeting of the Board attended in person and $1,000 for each telephone meeting of the Board attended. Committee Chairmen also are paid an additional annual retainer of $5,000, and committee members are paid $1,000 for each committee meeting. In addition, Directors are paid $1,000 for each executive session not held on the date of a Board meeting. Directors receive options to acquire 10,000 of the Company s common shares upon joining the Board of Directors, with an exercise price equal to the fair market value on the grant date.

Each member of the Board who is not also an officer or employee of the Company is eligible to participate in the 1988 and 1997 Director Plans. Pursuant to the 1988 Director Plan (which terminated in 1998), options to purchase 5,000 Common Shares were automatically granted to each eligible director on the last day of each February on which the Company s shares were publicly traded through 1998. In February 1999, a similar grant was made pursuant to the 1997 Director Plan, which provides for such grants through 2008. As a result of the two-for-one stock split effective on July 31, 2000, grants under the 1997 Director Plan were increased to 10,000 Common Shares beginning with the grant made in February 2001. The exercise price of all such options is equal to 100% of the fair market value of the Company s Common Shares on the date of grant. All options granted under the 1988 Director Plan and options granted under the 1997 Director Plan before February 13, 2001 become exercisable in 20% annual increments commencing on the first anniversary of the date they are granted. Options granted under the 1997 Director Plan after February 13, 2001 become exercisable in 25% annual increments commencing on the first anniversary of the date they were granted.

Compensation Committee Interlocks and Insider Participation

During Fiscal 2004, the Management Development and Compensation Committee was comprised of Messrs. John A. O Steen, Chairman, Brian R. Bachman, Barry Waite and C. William Zadel, all of whom are independent directors. During Fiscal 2004, no interlocking relationship existed between any member of the Board or executive officer of the Company and any member of the board of directors or compensation committee of any other entity.

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LEGAL PROCEEDINGS

From time to time, we are a plaintiff or defendant in various cases arising out of our business. We cannot assure you of the results of any 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.

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PRINCIPAL SHAREHOLDERS

The following table sets forth information as of December 1, 2004 (unless otherwise indicated in the notes below) regarding the beneficial ownership of our common stock by: (i) each shareholder known to us to be the beneficial owner, as defined in Rule 13d-3 under the Exchange Act, of more than 5% of our common stock, based upon our records or information publicly filed with the Securities and Exchange Commission, (ii) each director of the Company, (iii) each of the executive officers of the Company named in the Summary Compensation Table herein and (iv) the directors and all current executive officers of the Company as a group. Each of the shareholders named below has sole voting power and sole investment power with respect to the shares indicated as beneficially owned, unless otherwise indicated.

Name and address of Beneficial Owner	Common Shares Beneficially Owned On December 1, 2004 Number	Percent
Brian R. Bachman	1,000	*
Philip V. Gerdine	15,100(1)(2)	*
C. Scott Kulicke	1,500,762(1)(2)	2.9
John A. O Steen	63,000(1)(2)	*
Allison F. Page	44,040(1)	*
MacDonell Roehm, Jr.	79,000(1)	*
Barry Waite	2,500(1)	*
C. William Zadel	45,000(1)	*
Charles Salmons	210,084(1)	*
Jagdish (Jack) Belani	167,261(1)	*
Maurice E. Carson	46,450(1)	*
Oded Lendner	149,609(1)	*
Capital Group International, Inc. 11100 Santa Monica Boulevard Los Angeles, CA 90025(3)	4,837,950	9.4
Fred Alger Management, Inc. 111 Fifth Avenue New York, NY 10003(4)	3,518,694	6.9
Directors and current executive officers as a group (consists of 13 persons)(5)	2,338,145	4.4

* Represents less than 1%.

(1) Includes or consists of shares subject to outstanding options that are currently exercisable or exercisable within 60 days after December 1, 2004 in the following amounts: Mr. Gerdine (15,000), Mr. Waite (2,500), Mr. Kulicke (788,150), Mr. O Steen (43,000), Mr. Page (43,000), Mr. Roehm (73,000), Mr. Zadel (43,000), Mr. Salmons (204,365), Mr. Belani (166,925), Mr. Carson (45,875), and Mr. Lendner (146,980).

(2) Includes shares jointly held with the individual s spouse in the follow amounts: Mr. Gerdine (100), Mr. Kulicke (532,031), and Mr. O Steen (2,000).

(3) Based on information provided pursuant to an amendment to Schedule 13G filed jointly by Capital Group International, Inc. and Capital Guardian Trust Company with the Securities and Exchange Commission on February 13, 2004. Capital Group International, Inc. is the parent holding company of a group of investment management companies that hold investment power and, in some cases, voting

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power over these shares. On the amended Schedule 13G, Capital Group International, Inc. also reported that it does not have investment power or voting power over these shares, but it may be deemed to beneficially own these shares by virtue of Rule 13d-3 under the Securities Exchange Act of 1934.

(4) Based on information provided pursuant to a statement on Schedule 13G filed with the SEC on February 13, 2004.

(5) Includes 1,585,990 shares subject to options that are currently exercisable or exercisable within 60 days after December 1, 2004. See also footnote (1) above.

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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 herein and incorporated herein by reference.

	(in thousands, except per share amounts) Fiscal Years Ended September 30,				
	2000	**2001**	**2002**	**2003**	**2004**
Statement of Operations Data:					
Net sales:					
Equipment	$ 692,062	$ 249,952	$ 169,469	$ 198,447	$ 361,244
Packaging materials	185,570	150,945	157,176	174,471	234,690
Test		116,890	114,698	104,882	121,877
Corporate and other[1]		595	222	135	
Total net sales	877,632	518,382	441,565	477,935	717,811
Cost of goods sold:					
Equipment	419,732	166,359	142,965	129,092	208,862
Packaging materials	130,548	110,570	118,080	132,779	182,658
Test		84,401	79,686	87,856	95,286
Corporate and other[1]			14		
Total cost of goods sold[2]	550,280	361,330	340,745	349,727	486,806
Operating expenses:					
Equipment	120,244	105,609	91,966	71,678	59,071
Packaging materials	32,876	31,088	32,578	26,684	21,942
Test		66,148	130,077	44,218	48,107
Corporate and other[1]	29,380	34,234	66,883	15,539	17,940
Total operating expenses[2]	182,500	237,079	321,504	158,119	147,060
Income (loss) from operations:					
Equipment	152,086	(22,016)	(65,462)	(2,323)	93,311
Packaging materials	22,146	9,287	6,518	15,008	30,090
Test		(33,659)	(95,065)	(27,192)	(21,516)
Corporate and other[1]	(29,380)	(33,639)	(66,675)	(15,404)	(17,940)
Income (loss) from continuing operations[2]	144,852	(80,027)	(220,684)	(29,911)	83,945
Interest income(expense), net	4,782	(5,542)	(14,941)	(16,491)	(9,357)
Equity in loss of joint venture[3]	(1,221)				
Charge on early extinguishment of debt					(10,510)
Other income and minority interest		8,022	2,010		
Income(loss) from continuing operations before taxes and cumulative effect of change in accounting principle	148,413	(77,547)	(233,615)	(46,402)	64,078

Provision (benefit) for income taxes from continuing operations(4)	41,712	(21,468)	32,561	7,594	7,386
Loss from discontinued operations, net of tax(2)(5)	(3,456)	(1,009)	(7,939)	(22,693)	(812)
Cumulative effect of change in accounting principle, net of tax		(8,163)			
Net income (loss)	103,245	(65,251)	(274,115)	(76,689)	55,880
Addback:					
Goodwill amortization, net of tax(9)	1,873	9,587			
Pro forma net income (loss)(9)	$ 105,118	$ (55,664)	$ (274,115)	$ (76,689)	$ 55,880

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	(in thousands, except per share amounts) Fiscal Years Ended September 30,				
	2000	2001	2002	2003	2004
Income (loss) from continuing operations before cumulative effect of change in accounting principle per share: (6)					
Basic	$ 2.23	$ (1.15)	$ (5.41)	$ (1.09)	$ 1.12
Diluted	$ 1.96	$ (1.15)	$ (5.41)	$ (1.09)	$ 0.90
Discontinued operations, net of tax per share: (6)					
Basic	$ (0.07)	$ (0.02)	$ (0.16)	$ (0.46)	$ (0.02)
Diluted	$ (0.06)	$ (0.02)	$ (0.16)	$ (0.46)	$ (0.01)
Cumulative effect of change in accounting principle, net of tax per share: (6)					
Basic	$	$ (0.17)	$	$	$
Diluted	$	$ (0.17)	$	$	$
Net income (loss) per share: (6)					
Basic	$ 2.15	$ (1.34)	$ (5.57)	$ (1.54)	$ 1.10
Diluted	$ 1.90	$ (1.34)	$ (5.57)	$ (1.54)	$ 0.89
Goodwill amortization, net of tax per share: (6) (9)					
Basic	$ 0.04	$ 0.20	$	$	$
Diluted	$ 0.03	$ 0.20	$	$	$
Pro forma net income (loss) per share: (6) (9)					
Basic	$ 2.19	$ (1.14)	$ (5.57)	$ (1.54)	$ 1.10
Diluted	$ 1.93	$ (1.14)	$ (5.57)	$ (1.54)	$ 0.89
Shares used in per common share calculations: (6)					
Basic	47,932	48,877	49,217	49,695	50,746
Diluted	56,496	48,877	49,217	49,695	68,582
Balance Sheet Data:					
Cash, cash equivalents and short-term investments	$ 316,619	$ 202,928	$ 111,300	$ 73,051	$ 95,766
Working capital	471,338	265,355	159,813	125,829	193,450
Total assets	731,502	777,426	538,682	442,861	487,682
Long-term debt (7) (8)	175,000	301,511	300,393	300,338	275,725
Shareholders equity	405,342	338,547	69,323	97	67,020

(1) Corporate and other included the sales and expenses from the Company s former high density substrate business and corporate activities.

(2) During fiscal 2004, we recorded the following charges as operating expenses in continuing operations: severance charges of $4.5 million; asset impairment charge of $3.3 million; China start-up costs of $1.6 million; inventory writedowns of $1.5 million; and a reversal of prior year resizing charges of $68 thousand. We also recorded a gain on the sale of assets of $1.0 million within fiscal 2004 operating expenses.

During fiscal 2003, we recorded the following charges as operating expenses in continuing operations: loss on sale of product lines of $5.3 million and asset impairment of $3.6 million of which $1.7 million was associated with the discontinuation of a test product, $1.2 million was due to the reduction in size of a test facility in Dallas, Texas, and $730 thousand resulted from the write-down of assets that were sold and assets that became obsolete, $5.2 million of severance associated with workforce reductions; and charges for inventory write-downs of $5.1 million (to costs of goods sold). We recorded the following charges in discontinued operations: asset impairment of $6.9 million associated with the write-down of the assets of our flip chip business unit to realizable value and goodwill impairment of $5.7 million associated with our former flip chip reporting unit.

During fiscal 2002, we recorded the following charges as operating expenses: goodwill impairment of $74.3 million associated with our test and hub blade business units; asset impairment of $31.6 million primarily due to the cancellation of a company-wide integrated information system, the closure of our high density interconnect substrate business and the write-off of development and license costs of certain engineering and manufacturing software; $19.7 million of resizing charges comprised primarily of severance and contractual commitments associated with reductions in workforce and our closed and consolidated businesses; and $5.0 million of severance associated with workforce reductions in our continuing businesses. In fiscal 2002, we also recorded charges for inventory write-downs of $14.4 million (to costs of goods sold), $5.2 million of which was due to the discontinuance of a product.

During the first quarter of fiscal 2001, we purchased all the outstanding stock of Cerprobe Corporation and Probe Technology Corporation. As a result of these acquisitions, during the year ended September 30, 2001, we recorded a pre-tax charge of approximately $11.7 million for the write-off of in-process research and development. We also recorded charges of $19.9 million (to costs of goods sold) for inventory write-downs, $4.2 million for severance for the elimination of 511 positions and other related charges associated with a resizing of our workforce, $800 thousand for asset impairment charges, and non-recurring other income of $8.0 million as the result of an insurance settlement. In fiscal 2001, we also adopted SAB 101, resulting in a cumulative effect of an accounting change charge of $8.2 million, net of tax. Additionally, cost of goods sold for the year ended September 30, 2001 includes $4.2 million of acquisition related inventory step-up costs.

In fiscal 2000, operating expense included the write-off of our investment in our Advanced Polymer Solutions joint venture in the amount of $3.9 million and the reversal into income of $2.5 million of the severance reserve that we established in fiscal 1999 for the elimination of approximately 230 positions associated with the relocation of our automatic ball bonder manufacturing from the United States to Singapore.

(3) Equity in loss of joint ventures consists of our share of the loss of Advanced Polymer Solutions, LLC, a 50% owned joint venture which has been dissolved.

(4) In fiscal 2004, we reversed $11.2 million of valuation allowance associated with our U.S. net operating loss carryforward deferred tax asset. In fiscal 2003, we recorded a valuation allowance against our deferred tax asset consisting primarily of U.S. net operating loss carryforwards of $12.1 million. In fiscal 2002 we recorded a valuation allowance against our deferred tax asset consisting primarily of U.S. net operating loss carryforwards of $65.3 million and a charge of $25.0 million to provide for tax expense on repatriation of certain foreign earnings.

(5) Reflects the operations of the Company s former flip chip business unit which was sold in February 2004.

(6) On June 26, 2000, the Company s Board of Directors approved a two-for-one stock split of our common stock. The additional shares were distributed on July 31, 2000. All prior period earnings per share amounts have been restated to reflect the two-for-one stock split. For fiscal years 2001, 2002 and 2003, only the common shares outstanding have been used to calculate both the basic earnings per common share and diluted earnings per common share because the inclusion of potential common shares would be anti-dilutive due to the net losses reported in those years. The after-tax interest expense recognized in fiscal 2000 and 2004 associated with our convertible subordinated notes that was added back to net income in order to compute diluted net income per share was $4.3 million and $5.2 million, respectively.

(7) Does not include letters of credit.

(8) In August 2001, we issued $125.0 million in principal amount of 5 $^{1}/4$% Convertible Subordinated Notes due 2006, which we redeemed in their entirety in August 2004. In December 1999, we issued $175.0 million in principal

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amount of 4.75% Convertible Subordinated Notes due 2006, which we redeemed in their entirety in December 2003. In December 2003, we issued $205.0 million in principal amount of 0.5% Convertible Subordinated Notes due 2008, and in June 2004, we issued $65.0 million in principal amount of 1% Convertible Subordinated Notes due 2010.

(9) Reflects pro-forma results as if the adoption of SFAS 142 *Goodwill and Intangible Assets* had occurred at October 1, 1999. The adjustments reflect an add-back of the amortization expense related to goodwill, net of tax, which would not have occurred under the provisions of the standard. As part of the adoption of SFAS 142, there were no indefinite lived intangibles identified, and there was no change to the estimated useful lives of existing intangible assets.

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MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Introduction

We design, manufacture and market capital equipment, packaging materials and test interconnect products as well as service, maintain, repair and upgrade equipment, all used to assemble or test semiconductor devices. We are currently the world s leading supplier of semiconductor wire bonding assembly equipment, according to VLSI Research, Inc. Our business is currently divided into three product segments:

- equipment;
- packaging materials; and
- wafer and package test interconnect products.

We believe we are the only major supplier to the semiconductor assembly industry that can provide customers with semiconductor wire bonding equipment along with the complementary packaging materials and test interconnect products that actually contact the surface of the customer s semiconductor devices. We believe that the ability to control all of these assembly related products provides us with a significant competitive advantage and should allow us to develop system solutions to the new technology challenges inherent in assembling and packaging next-generation semiconductor devices.

In the March 2004 quarter, we sold the remaining assets of our advanced packaging technologies segment, which consisted solely of our flip chip business unit which licensed flip chip technology and provided flip chip bumping and wafer level packaging services. As a result, we have reflected the flip chip business unit as a discontinued operation and

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have not included the results of its operations in our revenues and expenses from continuing operations as reported in our financial statements or in this discussion of our results of operations. We have reclassified our prior period financial statements to coincide with the current year presentation.

The semiconductor industry historically has been volatile, with periods of rapid growth followed by downturns. One such downturn started in fiscal 2001 and persisted throughout most of fiscal 2003. The industry recovered from this downturn in late fiscal 2003 through the first three quarters of fiscal 2004. As a result of the industry recovery throughout the majority of fiscal 2004 and our continuing efforts to reduce our operating expenses and manage our business, we achieved the following in fiscal 2004:

- Net sales increased 50.2% to $717.8 million
- SG&A and R&D expenses decreased by $4.6 million
- Long term notes were refinanced resulting in: a $13.2 million reduction in annualized cash interest expense ($7.0 million in fiscal 2004); a $30 million reduction in our long term notes and; an extension of the maturity date of the long term notes.
- Generated net income of $55.9 million
- Generated $71.3 million of cash from operating activities

While we achieved the above positive results in fiscal 2004, in the fourth quarter of fiscal 2004 we experienced a 24.2% fall-off in sales compared to our third quarter. Based on declining order activity in the fourth quarter of fiscal 2004, customer indications and other factors we believe that the semiconductor industry entered a downturn. There can be no assurances regarding levels of demand for our products, and in any case, we believe the historical volatility both upward and downward will persist.

During the industry downturn from fiscal 2001 through most of fiscal 2003, we incurred significant resizing charges to scale down the size of our business and consolidated operations. Even after implementing these formal resizing plans (see Note 3 to our Condensed Consolidated Financial Statements), we have continued to lower our cost structure by further consolidating operations, moving certain of our manufacturing capacity to China, moving a portion of our supply chain to lower cost suppliers and designing better but lower cost equipment. Cost reduction efforts have become an important part of our normal ongoing operations and we believe this will drive down our cost structure below current levels, while not diminishing our product quality. However, we expect to incur additional quarterly charges such as severance and facility closing costs as a result of these long-term cost reduction programs. Our goal is to be both the technology leader, and the lowest cost supplier in each of our major lines of business.

We reported a loss from operations of our test business segment of $21.5 million in fiscal 2004. We are continuing with our plan to improve the performance of this segment through: new product introductions, consolidation of test facilities, the transfer of a greater portion of test production to our Asia facilities, and outsourcing a greater portion of the test production. We expect this plan will continue through 2005 and will result in future period charges and/or restructuring charges.

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Products and Services

We offer a range of wire bonding equipment and spare parts, packaging materials and test interconnect products. Set forth below is a table listing the percentage of our total net sales from continuing operations for each business segment for the three fiscal years ended September 30, 2002, 2003 and 2004:

	(dollars in thousands) Fiscal Year Ended September 30,					
	2002		2003[1]		2004	
	Net Sales	% of Total Net Sales	Net Sales	% of Total Net Sales	Net Sales	% of Total Net Sales
Equipment	$ 169,469	38%	$ 198,447	42%	$ 361,244	50%
Packaging materials	157,176	36%	174,471	37%	234,690	33%
Test interconnect	114,698	26%	104,882	22%	121,877	17%
Other[2]	222	0%	135	0%		0%
	$ 441,565	100%	$ 477,935	100%	$ 717,811	100%

(1) In the fourth quarter of fiscal 2003, we sold the assets related to the saw and hard material blade businesses that were part of the equipment segment and packaging materials segment, respectively. Those businesses had fiscal 2003 net sales of $11.3 million.
(2) Comprised of sales associated with our substrate business that was closed in fiscal 2002.

Over time, our equipment sales are highly volatile, based on the semiconductor industry s need for new capability and capacity, whereas packaging materials and test interconnect sales tend to be more stable, following the trend of total semiconductor unit production.

See Note 13 to our Consolidated Financial Statements for financial results by business segment.

Equipment

We manufacture and market a line of wire bonders, which are used to connect very fine wires, typically made of gold, aluminum or copper, between the bond pads of a semiconductor die and the leads on the integrated circuit (IC) package to which the die has been attached. We believe that our wire bonders offer competitive advantages by providing customers with high productivity/throughput and superior package quality/process control. In particular, our machines are capable of performing very fine pitch bonding as well as creating the sophisticated wire loop shapes that are needed in the assembly of advanced semiconductor packages. Our principal products are:

Ball Bonders. Automatic IC ball bonders represent a large majority of our semiconductor equipment business. As part of our competitive strategy, we have been introducing new models of IC ball bonders every 15 to 24 months, with each new model designed to increase both productivity and process capability compared to its predecessor. In May 2002, we began marketing the Maxum IC ball bonder, which offered up to 20% more productivity than its predecessor. In the second quarter of fiscal 2004, we began shipping the Maxum Plus to customers offering further productivity increases, as well as process capability improvements. In addition, in January of 2003, we began shipping the Nu-Tek , a new automatic wire bonder optimized for low lead count ICs and discrete device applications, which are both segments of the market where we had not previously participated.

Specialty Wire Bonders. We also produce other models of wire bonders, targeted at specific market niches, including: the Model 8098, a large area ball bonder designed for wire bonding hybrid, chip on board, and other large area applications; the WaferPRO Plus , for wafer level bumping for area array applications; the Triton RDA , a wedge bonder designed for ribbon bonding; and the Model 8090, a large area wedge bonder. We also manufacture and market a line of manual wire bonders.

We believe that our industry knowledge and technical experience have positioned us to deliver innovative, customer-specific offerings that reduce the cost of owning our equipment over its useful life. In response to customer trends in outsourcing packaging requirements, we provide repair and maintenance services, a variety of equipment upgrades, machine and component rebuild activities and expanded customer training through our customer operations group.

Packaging Materials

We manufacture and market a range of semiconductor packaging materials and expendable tools for the semiconductor

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assembly market, including very fine gold, aluminum and copper wire, capillaries, wedges, die collets and saw blades, all of which are used in packaging and assembly processes. Our packaging materials are designed for use on both our own and our competitors assembly equipment. A wire bonder uses a capillary or wedge tool and bonding wire much like a sewing machine uses a needle and thread. Our principal products are:

Bonding Wire. We manufacture very fine gold, aluminum and copper wire used in the wire bonding process. This wire is bonded to the chip surface and package substrate by the wire bonder and becomes a permanent part of the customer s semiconductor package. We produce wire to a wide range of specifications, which can satisfy most wire bonding applications across the spectrum of semiconductor packages.

Expendable Tools. Our expendable tools include a wide variety of capillaries, wedges, die collets and wafer saw blades. The capillaries and wedges actually attach the wire to the semiconductor chip, allow a precise amount of wire to be fed out to form a permanent wire loop, then attach the wire to the package substrate, and finally cut the wire so that the bonding process can be repeated again. Die collets are used to pick up and place die into packages before the wire bonding process begins. Our hub blades are used to cut silicon wafers into individual semiconductor die.

Test Interconnect

We offer a broad range of fixtures used to temporarily contact a semiconductor device while it is still in the wafer format (wafer probing), thereby providing electrical connections to automatic test equipment. We also offer test sockets used to test the final semiconductor package (package or final testing). Our principal test interconnect products are:

Probe cards. Probe cards consist of complex, multilayer printed circuit boards (PCB) upon which are attached numerous probe needles designed to make temporary contact to each of the bond pads or bumps on a die while the die is still in a wafer format, providing electrical connections to automatic test equipment.

Automatic Test Equipment (ATE) interface assemblies. ATE interface assemblies typically consist of electro-mechanical assemblies, electrical contactors and intricate multilayer PCBs, which mechanically and electrically connect to the ATE test prober and carry electrical signals to a probe card, and ultimately the semiconductor device under test.

Test sockets. Test sockets hold packaged semiconductor devices while making electrical connections to their leads through spring loaded contacts.

Changes in the design of a semiconductor device often require changes in the probe card, test socket and, in certain cases, the ATE interface assembly used to test that semiconductor. Customers generally purchase new versions of these custom-designed products each time there is a design change in the semiconductor being tested. Changes in semiconductor design and processes drive improvements in test interconnect technology in order to support significant increases in the number and density of bond pads or leads being tested and the speed of the electrical signals being tested.

Accounting Policies, Pronouncements and Estimates

We believe the following accounting policy is critical to the preparation of our financial statements:

Revenue Recognition. Our revenue recognition policy is in accordance with Staff Accounting Bulletin No. 104 (SAB 104), *Revenue Recognition*. We recognize revenue when persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, the price is fixed or determinable, the collectibility is reasonably assured, and we have satisfied any equipment installation obligations and received customer acceptance, or are otherwise released from our installation or customer acceptance obligations. In the event terms of the sale provide for a lapsing customer acceptance period, we recognize revenue based upon the expiration of the lapsing acceptance period or customer acceptance, whichever occurs first. Our standard terms are Ex Works (K&S factory), with title transferring to our customer at our loading dock or upon embarkation. We do have a small percentage of sales with other terms, and revenue is recognized in accordance with the terms of the related customer purchase order. Revenue related to services is generally recognized upon performance of the services requested by a customer order. Revenue for extended maintenance service

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contracts with a term more than one month is recognized on a prorated straight-line basis over the term of the contract. Revenue from royalty arrangements and license agreements is recognized in accordance with the contract terms, generally prorated over the life of the contract or based upon specific deliverables. Our business is subject to contingencies related to customer orders as follows:

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

Warranties: Our products are generally shipped with a one-year warranty against manufacturer s defects and we do not offer extended warranties in the normal course of our business. We recognize a liability for estimated warranty expense when revenue for the related product is recognized. The estimated liability for warranty is based upon historical experience and our estimates of future expenses.

Conditions of Acceptance: Sales of our consumable products and bonding wire generally do not have customer acceptance terms. In certain cases, sales of our equipment products do have customer acceptance clauses which generally require that the equipment perform in accordance with specifications during an on-site factory inspection by the customer, as well as when installed at the customer s facility. In such cases, if the terms of acceptance are satisfied at our facility prior to shipment, the revenue for the equipment will be recognized upon shipment. If the customer must first install the equipment in their own factory, then generally, revenue associated with that sale is not recognized until acceptance is received from the customer.

Price Protection: We do not provide price protection to our customers.

Critical Estimates and Assumptions:

Generally accepted accounting principles require the use of 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 our financial statements include allowances for uncollectible accounts receivable, reserves for excess and obsolete inventory, carrying value and lives of fixed assets, goodwill and intangible assets, valuation allowances for deferred tax assets and deferred tax liabilities, self insurance reserves, pension benefit liabilities, resizing, warranty, litigation. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which are the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

We believe the following accounting policies require significant judgments and estimates:

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

Inventory Reserves. We generally provide reserves for equipment inventory and spare part and consumable inventories considered to be in excess of 18 months of forecasted future demand, and test interconnect inventory considered to be in excess of 12 months of forecasted future demand. The forecasted demand is based upon internal projections, historical sales volumes, customer order activity and a review of consumable inventory levels at our customers facilities. We communicate forecasts of our future demand to our suppliers and adjust commitments to those suppliers accordingly. If required, we rereserve for the difference between the carrying value of our inventory and the lower of cost or market value, based upon assumptions about future demand, market conditions and the next cyclical market upturn. If actual market conditions are less favorable than our projections, additional inventory reserves may be required. We review and dispose of excess and obsolete inventory on a regular basis.

Valuation of Long-lived Assets. Our long-lived assets include property, plant and equipment, goodwill and intangible assets. Our property, plant and equipment and intangible assets are depreciated over their estimated useful lives, and are reviewed for impairment whenever changes in circumstances indicate the carrying amount of these assets may not be recoverable. The fair value of our goodwill and intangible assets is based upon our estimates of future cash flows and other factors to determine the fair value of the respective assets. We manage and value our intangible technology assets in the aggregate, as one asset group, not by individual technology. We perform our annual goodwill and intangible assets impairment test in the fourth quarter of each fiscal year, which coincides with our annual planning process. We also test for impairment whenever a triggering event occurs. Our impairment testing resulted in an impairment charge of $5.7 million in fiscal 2003 in our flip chip business unit and a fiscal 2002 impairment charge of $72.0 million in the test business unit and $2.3 million in the hub blade business. If these estimates or their related assumptions change in the future, we may be required to record additional impairment charges in accordance with SFAS 142 and SFAS 144.

Deferred Taxes. We record a valuation allowance to reduce our deferred tax assets to the amount that we expect is more likely than not to be realized. While we have considered future taxable income and ongoing prudent and feasible tax planning strategies in assessing the need for the valuation allowance, if we were to determine that we would be able to realize our deferred tax assets in the future in excess of our net recorded amount, an adjustment to the deferred tax asset would increase income in the period such determination was made. Likewise, should we determine that we would not be able to realize all or part of our net deferred tax assets in the future, an adjustment to the deferred tax asset would decrease income in the period such determination was made. In fiscal 2003 and 2002 we established a valuation allowance against our deferred tax assets generated from our U.S. net operating losses. In fiscal 2004 we reversed the portion of the valuation allowance that was equal to the U.S. federal income tax expense on our U.S. income. If the Company were to generate additional U.S. net operating loss carryforwards, additional valuation allowances would be set up against these deferred tax assets.

Accounting for Costs Associated with Exit or Disposal Activities - In June 2002, the FASB issued SFAS 146, *Accounting for Exit or Disposal Activities* which addresses significant issues regarding the recognition, measurement, and reporting of costs that are associated with exit and disposal activities, including restructuring activities that are currently accounted for pursuant to the guidance that the Emerging Issues Task Force (EITF) has set forth in EITF 94-3, Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring). We have adopted this standard and the adoption did not have a material impact on our financial position and results of operations, however, this standard will in certain circumstances change the timing of recognition of restructuring (resizing) costs.

Overview of Statement of Operations

Net sales. 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 technology driven advancements in semiconductor design. The semiconductor industry historically has been highly volatile, and has experienced periodic downturns followed by rebounds. Downturns have had a severe effect on the semiconductor industry s demand for capital equipment. For example, a downturn in the semiconductor industry from fiscal 2001 through most of fiscal 2003 contributed to lower net sales in each of those fiscal years in comparison to our fiscal 2000 net sales. This downturn was followed by increased market demand during most of our fiscal 2004 resulting in an 82.0% increase in our equipment net sales in fiscal 2004 compared to fiscal 2003. In the fourth quarter of fiscal 2004, we announced weakening customer demand for our equipment and we expect further weakening in the first quarter of fiscal 2005.

Our packaging materials sales depend on manufacturing expenditures of semiconductor manufacturers and subcontract assemblers, many of which also purchase our equipment products. However, the volatility in demand for our packaging materials is less than that of our equipment sales due to the consumable nature of these products.

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Our test interconnect solutions sales depend on the manufacturing expenditures of some of the same semiconductor manufacturers and subcontractors as our equipment and packaging materials sales as well as other customers. Because of the consumable and customized nature of most of our test products, however, the volatility in demand for these test products is less than that of our equipment sales.

Cost of goods sold. 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 and 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 which generally matches the price we pay for the gold with the price we invoice our customers. 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 of our bonding wire business unit, the gross profit as a percentage of sales of that business unit and therefore the packaging materials segment will be lower than can be expected in the equipment business. We rely on one supplier for our gold requirements.

Test interconnect cost of goods sold consists primarily of direct labor and indirect labor for engineering design and materials used in the manufacture of wafer and IC package testing cards and devices.

Selling, general and administrative expense. Our selling, general and administrative expense is comprised primarily of personnel and related costs, professional costs, and depreciation expense.

Research and development expense. Our research and development costs consist primarily of labor, prototype material and other costs associated with our development efforts to strengthen our product lines and develop new products and depreciation expense. Included in research and development expense is the cost to develop the software that operates our semiconductor assembly equipment, which is expensed as incurred. We expect to continue to incur significant research and development costs.

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Results of Operations

Fiscal Years Ended September 30, 2004, September 30, 2003 and September 30, 2002

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

	Fiscal Year Ended September 30,		
	2002	2003	2004
Net sales	100.0%	100.0%	100.0%
Cost of goods sold	77.2	73.2	67.8
Gross margin	22.8	26.8	32.2
Selling, general and administrative	30.6	21.4	14.1
Research and development, net	11.8	8.0	4.8
Resizing	4.3	(0.1)	(0.0)
Asset impairment	7.2	0.8	0.5
Goodwill impairment	16.8		
Amortization of goodwill and intangibles	2.2	1.9	1.3
Gain on sale of assets			(0.1)
Loss on sale of product lines		1.1	
Income (loss) from operations	(50.0)%	(6.3)%	11.7%

Fiscal Years Ended September 30, 2004 and September 30, 2003

Bookings and Backlog. During the fiscal year ended September 30, 2004, we recorded bookings of $718.5 million compared to $488.8 million in fiscal 2003. A booking is recorded when a customer order is reviewed and a determination is made that all specifications can be met, production (or service) can be scheduled, a delivery date can be set, and the customer meets the Company s credit requirements. At September 30, 2004, the backlog of customer orders totaled $59.7 million, compared to $59.9 million at September 30, 2003. 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. For example, on August 10, 2004, we announced that discussions with customers indicated a general slowing in the rate of semiconductor growth. As a result, some of these customers requested that we delay the shipment of wire bonders previously ordered and included in our backlog of customer orders at June 30, 2004.

Sales

Business segment net sales:

	(dollars amounts in thousands) Fiscal year ended September 30,		
	2003	2004	% Change
Equipment	$ 198,447	$ 361,244	82.0%
Packaging materials	174,471	234,690	34.5%
Test interconnect	104,882	121,877	16.2%
Other (1)	135		NA
	$ 477,935	$ 717,811	50.2%

(1) Comprised of residual sales associated with our substrate business that was closed in fiscal 2002.

Sales. Net sales from continuing operations for the year ended September 30, 2004 were $717.8 million, an increase of 50.2% from $477.9 million in fiscal 2003 due primarily to the improved demand in the semiconductor industry for our automatic ball bonders throughout the majority of fiscal 2004.

Our equipment segment was the primary beneficiary of the increased demand in the semiconductor industry during fiscal

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2004, recording an 82.0% increase in net sales compared to the prior year. According to VLSI Research, our market share of worldwide revenue for automatic ball bonders for the first half of calendar 2004 increased to 49% from 41% in the second half of calendar 2003 and 36% in the first half of calendar 2003. The higher net sales resulted primarily from a 122.1% increase in unit sales of our automatic ball bonders. We recorded our highest quarterly ball bonder unit volume in the history of the Company in the second quarter of fiscal 2004. This large percentage increase in ball bonder unit sales was partially offset by the elimination of sales of dicing saws in fiscal 2004 due to the sale of this business in August 2003, relatively flat sales in specialty bonders and spare parts, and a lower average selling price (ASP) per ball bonder. The blended ASP for our automatic ball bonders was 5.1% lower than the prior year, due primarily to customer mix. This reflected general lowering of ASP for any particular model over its product life cycle. To mitigate this we introduce new models with additional features that enable us to demand a higher selling price. We experienced a higher ASP on our newer Maxum Plus model compared to Maxum. The blended ASP varies with the proportion of newer models sold and with customer mix.

Our packaging materials business also benefited from the increased demand in the semiconductor industry with a $60.2 million or 34.5% increase in net sales. Our capillary unit sales were up 26.3% in fiscal 2004 compared to the prior year. Blended capillary ASP was down slightly (2.9%) from the prior year. The reduction in blended capillary ASP is a function of the general decline in unit prices and mix between high and low end capillaries. High end capillaries support advanced packaging applications and have higher ASP s. As in our equipment business, we introduce new capillaries with additional capabilities that enable us to demand a higher selling price. Our wire unit sales (measured in Kft) increased 36.6% in fiscal 2004 over the prior year due to increased orders from existing customers and new customers. Wire ASP is heavily dependent upon the price of gold and can fluctuate significantly from period to period. In fiscal 2004 the price of gold accounted for approximately $20.6 million of the sales increase over the prior year and the increase in unit volume accounted for approximately $28.5 million of the increase.

Our test interconnect sales were $17.0 million in fiscal 2004 or 16.2% above the prior year. Our vertically configured retractable pin probe cards accounted for $13.4 million of the increase due to higher unit sales. Net sales of our other major test product lines were slightly above the prior year but negatively impacted by the sale of our PC board business in the second quarter of fiscal 2004. Our sales of PC board products were approximately $5.5 million lower in fiscal 2004 compared to the prior year. Blended ASPs are not meaningful in the test business due to lack of a standard unit of measure and the large difference in part types sold. As such, blended ASP s are not a metric used by management for test interconnect sales.

The majority of our sales are to customers that are located outside of the United States or that have manufacturing facilities outside of the United States. Shipments of our products with ultimate foreign destinations comprised 86% of our total sales in fiscal 2004 compared to 80% in the prior fiscal year. The majority of these foreign sales were to customer locations in the Asia/Pacific region, including Taiwan, Malaysia, Singapore, Korea and Japan. Taiwan accounted for the largest single destination for our product shipments with 25% of our shipments in fiscal 2004 compared to 20% of our shipments in the prior fiscal year.

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Gross Profit

Business segment gross profit:

	(dollars amounts in thousands) Fiscal year ended September 30,			
	2003	% Sales	2004	% Sales
Equipment	$ 69,355	34.9%	$ 152,382	42.2%
Packaging materials	41,692	23.9%	52,032	22.2%
Test interconnect	17,026	16.2%	26,591	21.8%
Other(1)	135	100.0%		NA
	$ 128,208	26.8%	$ 231,005	32.2%

(1) Comprised of residual gross profit associated with our substrate business that was closed in fiscal 2002.

Gross profit. Gross profit increased 80.2% ($102.8 million) in fiscal 2004 from the prior year and our gross margin (gross profit as a percentage of net sales) improved 5.4 percentage points. The higher gross profit and gross margin was primarily due to the improved demand in the semiconductor industry, particularly for our automatic ball bonders. Included in the results for fiscal 2004 were $1.5 million of inventory write-downs. Included in the results for fiscal 2003 is a charge for inventory write-downs of $5.1 million.

Our equipment gross profit increased 119.7% ($83.0 million) from the prior year and the equipment gross margin increased 7.3 percentage points from the prior year. The higher sales volume of ball bonders accounted for $55.1 million of the increased gross profit and an 18.1% reduction in the manufacturing cost per ball bonders partially offset by the lower ASP accounted for $24.4 million of the improvement. Our lower cost per unit was the main reason for the 7.3 percentage point increase in gross margin and due to the lowering of production costs over our products life cycle via better supply chain management, engineering more cost effective parts and volume purchasing.

Our packaging materials gross profit increased 24.8% ($10.3 million) from the prior year, with capillaries gross profit accounting for $7.9 million of the increase. Higher capillary unit volume accounted for $5.9 million of this improvement and lower capillary costs associated with shifting a portion of capillary production to China accounted for $3.1 million of the variance. These favorable results were partially offset by lower capillary ASP s. Our wire gross profit was approximately $4.9 million higher than the prior year reflecting higher unit sales (measured in Kft) but the wire gross margin was lower than the prior year due to the increase in the price of gold, which makes up a significant portion of our wire cost of sales.

Our test interconnect business gross profit increased 56.2% ($9.6 million) and its gross margin increased 5.6 percentage points. The higher gross profit and gross margin was due primarily to higher unit sales in our vertically configured retractable pin probe cards and test sockets product lines and the associated manufacturing efficiencies. Duplicate costs associated with the start-up of production of cantilever products in our China facility partially offset the positive impact from the higher vertical and package test sales.

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Operating Expenses

	(dollars amounts in thousands) Fiscal year ended September 30,			
	2003	% Sales	2004	% Sales
Selling, general and administrative	$ 102,327	21.4%	$ 101,225	14.1%
Research and development, net	38,121	8.0%	34,611	4.8%
Resizing(recovery) costs	(475)	-0.1%	(68)	0.0%
Asset impairment	3,629	0.8%	3,293	0.5%
Gain on sale of assets		0.0%	(1,023)	-0.1%
Amortization of intangible assets	9,260	1.9%	9,022	1.3%
Loss on sale of product lines	5,257	1.1%		0.0%
	$ 158,119	33.1%	$ 147,060	20.5%

Selling, general and administrative expenses. SG&A expenses were relatively flat when compared with the prior year but SG&A expense as a percentage of sales was down 7.3 percentage points. In fiscal 2004, SG&A expense included a variable expense for incentive compensation of $10.3 million compared to no expense for incentive compensation in the prior year. Also included in fiscal 2004 were: severance charges of $4.5 million ($2.1 million of which was associated with the closing of a probe card production facility in France); and $1.6 million of start-up costs in our China facility to transition production capacity. Included in the SG&A expense for fiscal 2003 were: costs associated with workforce reductions (severance) of $5.2 million; start-up costs for our new China facility of approximately $2.0 million; and a $0.7 million charge for the early termination of an information technology services agreement, partially offset by the favorable reversal of a $2.0 million reserve previously established for potential obligations to U.S. Customs. Other than the above mentioned costs, our SG&A costs were lower than the prior year and reflected our efforts to contain operating costs with higher sales volume.

The workforce reduction/severance charges identified in the previous paragraph were included in SG&A expense because they were not related to formal and distinct restructuring programs, but rather, they were normal and recurring management of employment levels in response to business conditions and our ongoing effort to reduce our cost structure. Also, if the business conditions had improved, we were prepared to rehire some of these terminated individuals. These charges are in contrast to the formal and distinct resizing programs we established in prior fiscal years.

Research and development. Research and development (R&D) expense in fiscal 2004 decreased $3.5 million or 9.2% from fiscal 2003. While we saw lower payroll and related expenses due to our ongoing cost reduction efforts, we continued to invest in the development of next-generation wire bonders and new products for our test interconnect business. In fiscal 2004 we also purchased a license for an interconnection device which we believe will form the nucleus for our next-generation of semiconductor sockets for our package test products.

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

In fiscal 2004, we reversed $68 thousand of these resizing charges and in fiscal 2003 we reversed $475 thousand of these resizing charges due to the actual severance cost associated with the terminated positions being less than the cost originally estimated. We recorded resizing charges of $18.8 million in fiscal 2002 and $4.2 million in fiscal 2001.

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In addition to the formal resizing costs identified below, we continued (and are continuing) to downsize our operations in fiscal 2002, 2003 and 2004. These downsizing efforts resulted in workforce reduction charges of $4.5 million in fiscal 2004, $5.6 million in fiscal 2003 and $5.0 million in fiscal 2002. In contrast to the resizing plans discussed above, these workforce reductions were not related to formal or distinct restructurings, but rather, the normal and recurring management of employment levels in response to business conditions and our ongoing effort to reduce our cost structure. In addition, during fiscal 2003, if the business conditions were to have improved, we were prepared to rehire some of these terminated individuals. These recurring workforce reduction charges were recorded as Selling, General and Administrative expenses.

A summary of the charges, reversals and payments of the formal resizing plans initiated in fiscal 2002 appears below:

	(in thousands)		
Fiscal 2002 Resizing Plans	**Severance and Benefits**	**Commitments**	**Total**
Provision for resizing plans in fiscal 2002			
Continuing operations	$ 9,486	$ 9,282	$ 18,768
Discontinued operations	893		893
Payment of obligations in fiscal 2002	(5,914)	(300)	(6,214)
Balance, September 30, 2002	4,465	8,982	13,447
Change in estimate	(455)		(455)
Payment of obligations in fiscal 2003	(3,135)	(3,192)	(6,327)
Balance, September 30, 2003	875	5,790	6,665
Change in estimate	(68)		(68)
Payment of obligations	(440)	(2,619)	(3,059)
Balance, September 30, 2004	$ 367	$ 3,171	$ 3,538

The individual resizing plans and acquisition restructuring plans initiated in fiscal 2002 are identified below:

Fourth Quarter 2002

In January 1999, we acquired the advanced substrate technology of MicroModule Systems, a Cupertino, California company, to enable production of high density substrates. While showing some progress in developing our substrate technology, the business was not profitable and would have required additional capital and operating cash to complete development of the technology. In light of the business downturn that was affecting the semiconductor industry at the time, in the fourth quarter of fiscal 2002, we announced that we could not afford to further develop the substrate technology and would close our substrate operations. As a result, we recorded a resizing charge of $8.5 million. The resizing charge included a severance charge of $1.2 million for the elimination of 48 positions and lease obligations of $7.3 million. We expected, and achieved, annual payroll related savings of approximately $4.2 million and annual facility/operating savings of approximately $3.9 million as a result of this resizing plan. By June 30, 2003, all the positions had been eliminated. The plans have been completed but cash payments for the lease obligations are expected to continue into 2006, or such time as the obligations can be satisfied. In addition to these resizing charges, in the fourth quarter of fiscal 2002, we wrote-off $7.3 million of fixed assets and $1.1 million of intangible assets associated with the closure of the substrate operation. This substrate business was included in our then existing advanced packaging business segment.

Third Quarter 2002

As a result of the continuing downturn in the semiconductor industry and our desire to improve the performance of our test business segment, we decided to move towards a 24 hour per-day manufacturing model in our major U.S. wafer test facility, which would provide our customers with faster turn-around time and delivery of orders and economies of scale in manufacturing. As a result, in the third quarter of fiscal 2002, we announced a resizing plan to reduce headcount and consolidate manufacturing in our test business segment. As part of this plan, we moved manufacturing of wafer test products from our facilities in Gilbert, Arizona and Austin, Texas to our facilities in San Jose, California and Dallas, Texas and from our Kaohsuing, Taiwan facility to our Hsin Chu, Taiwan facility. The resizing plan included a severance charge of $1.6 million for the elimination of 149 positions as a result of the manufacturing consolidation. The resizing plan also included a charge of $0.5 million associated with the closure of the Kaohsuing, Taiwan facility and an Austin, Texas facility representing costs of non-cancelable lease obligations beyond the facility closure and costs required to restore the production facilities to their original state. We expected, and achieved, annual payroll related savings of approximately $6.9 million and annual facility/operating savings of approximately $84 thousand as a result of this resizing plan. All of the positions have been eliminated and both facilities have been closed. The plans have been completed but cash payments for the severance, facility and contractual obligations are expected to continue through 2005, or such earlier time as the obligations can be satisfied.

Second Quarter 2002

As a result of the continuing downturn in the semiconductor industry and our desire to more efficiently manage our business, in the second quarter of fiscal 2002, we announced a resizing plan comprised of a functional realignment of business management and the consolidation and closure of certain facilities. In connection with the resizing plan, we recorded a charge of $11.3 million ($10.4 million in continuing operations and $0.9 million in discontinued operations), consisting of severance and benefits of $9.7 million for 372 positions that were to be eliminated as a result of the functional realignment, facility consolidation, the shift of certain manufacturing to China (including the Company s hub blade business) and the move of our microelectronics products to Singapore and a charge of $1.6 million for the cost of lease commitments beyond the closure date of facilities to be exited as part of the facility consolidation plan.

In the second quarter of fiscal 2002, we closed five test facilities: two in the United States, one in France, one in Malaysia, and one in Singapore. These operations were absorbed into other company facilities. The resizing charge for the facility consolidation reflects the cost of lease commitments beyond the exit dates that are associated with these closed test facilities.

To reduce our short term cash requirements, we decided, in the fourth quarter of fiscal 2002, not to relocate our hub blade manufacturing facility from the United States to China or our microelectronics product manufacturing from the United States to Singapore, as previously announced. This change in our facility relocation plan resulted in a reversal of $1.6 million of the resizing costs recorded in the second quarter of fiscal 2002. As a result, we reduced our expected annual savings from this resizing plan for payroll related expenses by approximately $4.7 million.

Also in the fourth quarter of fiscal 2002, we reversed $600 thousand ($590 thousand in continuing operations and $10 thousand in discontinued operations) of the severance resizing expenses and in the fourth quarter of fiscal 2003 we reversed $353 thousand of resizing expenses, previously recorded in the second quarter of fiscal 2002, due to actual severance costs associated with the terminated positions being less than those estimated as a result of employees leaving the Company before they were severed.

As a result of the functional realignment, we terminated employees at all levels of the organization from factory workers to vice presidents. The organizational change shifted management of our Company businesses to functional (i.e. sales, manufacturing, research and development, etc.) areas across product lines rather than by product line. For example, research and development activities for the entire company are now controlled and coordinated by one corporate vice president under the functional organizational structure, rather than separately by each business unit. This structure provides for a more efficient allocation of human and capital resources to achieve corporate R&D initiatives.

We expected annual payroll related savings of approximately $17.3 million and annual facility/operating savings of approximately $660 thousand as a result of this resizing plan. As a result of the decision not to relocate our hub blade manufacturing facility or our microelectronics product manufacturing we ultimately achieved annual payroll related savings of approximately $12.7 million. The plans have been completed but cash payments for the severance charges are expected to continue into 2005, or such time as the obligations can be satisfied.

Asset impairment. In fiscal 2004, we recorded an asset impairment charge of $3.3 million associated with exiting our PC board fabrication business and the closure of a probe card production facility in France. The fiscal 2003 charge included; $1.7 million associated with the discontinuation of a test product; $1.2 million due to the reduction in the size of a test facility in Dallas, Texas; and $730 thousand resulting from the write-down of assets that were sold and assets that became obsolete.

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We perform our annual test for impairment of intangible assets at the end of the fourth quarter of each fiscal year, which coincides with the completion of our annual forecasting process. However, we also test for impairment whenever a triggering event occurs. We performed interim goodwill impairment tests on the goodwill associated with our test interconnect business during the quarters ended December 31, 2003 and March 31, 2004 due to the existence of an impairment trigger, which was the losses experienced at this business. Based on the results of these tests and our annual impairment test on intangibles assets associated with both our wire and test businesses, no impairment charge was recorded in fiscal 2004. The fair value of the wire and test reporting units was based on discounted cash flows of our projected future cash flows from this reporting unit, consistent with the methods used in fiscal 2002 and 2003. When conducting our goodwill impairment analysis, we calculate our potential impairment charges based on the two-step test identified in SFAS 142 and using the implied fair value of the respective reporting units. We use the present value of future cash flows from the respective reporting units to determine the implied fair value. We also tested our intangible assets for impairment in the March 2004 quarter, as a result of the sale of certain assets of the test operations and recorded an impairment charge of $3.2 million associated with the reporting unit s purchased technology intangible asset. The $3.2 million charge is included in the $3.3 million asset impairment charge recorded in fiscal 2004.

In fiscal 2003, we also recorded an asset impairment charge of $6.9 million, to write-down assets to their realizable value, in our discontinued flip chip operation.

Gain in sale of assets. In fiscal 2004, we realized a gain of $938 thousand on the sale of land and a building and $85 thousand on the sale of a portion of our PC board business.

Amortization of intangibles. Amortization expense in both fiscal 2003 and 2004 was associated with our intangible assets for customer accounts and completed technology arising from the acquisition of our test division. The slightly lower amortization expense in fiscal 2004 compared to the prior year was due to the impairment of our complete technology intangible asset mentioned above. The aggregate amortization expense for these items for each of the next five fiscal years is expected to approximate $8.8 million.

Loss on sale of product lines. In the fourth quarter of fiscal 2003, we sold the fixed assets, inventories and intellectual property associated with our saw and hard material blade product lines for $1.2 million in cash. We wrote-off $6.5 million of net assets associated with the transaction. In addition, we sold the assets associated with our polymers business for $105 thousand. This loss on sale of product lines of $5.3 million has been reclassified to be included in our operating expenses section of the consolidated statement of operations, from its prior presentation outside of the operating results.

Income (loss) from operations

Income (loss) from operations by business segments appears below:

	(dollars amounts in thousands) **Fiscal year ended September 30,**			
	2003	**% Sales**	**2004**	**% Sales**
Equipment	$ (2,323)	-1.2%	$ 93,311	25.8%

Packaging materials	15,008	8.6%	30,090	12.8%
Test interconnect	(27,192)	-25.9%	(21,516)	-17.7%
Corporate and other	(15,404)	NA	(17,940)	NA
	$ (29,911)	-6.3%	$ 83,945	11.7%

Our income from operations in fiscal 2004 was $83.9 million compared to a loss from operations of $29.9 million in the prior fiscal year. The turn from a loss to profit generally reflected increased demand in the semiconductor industry throughout most of fiscal 2004 and our ongoing efforts to reduce operational expenses.

Equipment operating income increased $95.6 million from the prior year due primarily to higher sales and gross profit and lower operating costs. Packaging materials operating income increased $15.1 million (100.5%), also due primarily to

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higher sales and gross profit and lower operating costs. Test interconnect operating loss was $5.7 million or 20.9% less than the prior year due primarily to higher gross profit. In order to improve the operating results of this business segment, we plan to consolidate test facilities, transfer a greater portion of the test production to our Asian facilities, outsource a greater portion of the test production, and introduce new products. We expect implementation of this plan will continue through 2005 and will result in future period charges and/or restructuring charges. Our loss from corporate and other activities was $2.5 million higher than the prior year due to recording $4.4 million of employee incentive compensation expense in fiscal 2004 compared to no incentive compensation in the prior year.

Interest and Charge on Early Extinguishment of Debt. Interest income in fiscal 2004 was $1.1 million compared to $940 thousand in the prior fiscal year. The higher interest income in fiscal 2004 was due primarily to higher cash and short-term investments. Interest expense in fiscal 2004 was $10.5 million compared to $17.4 million in the prior fiscal year. Interest expense in both fiscal 2004 and 2003 primarily reflects interest on our convertible subordinated notes. The lower interest expense in fiscal 2004 was due to the refinancing of our 4.75% and 5.25% convertible subordinated notes with lower interest 0.5% and 1.0% convertible subordinated notes. We also reduced the total amount of subordinated debt outstanding by $30 million.

We incurred a cost of $10.5 million to redeem our 4.75% and 5.25% convertible subordinated notes; $6.0 of which was a cash expense associated with the redemption premium and $4.5 was due to the write-off of deferred financing expenses associated with the initial issuance of the notes.

Tax expense. Tax expense in fiscal 2004 reflects income tax on income in foreign jurisdictions, alternative minimum tax on U.S. income and certain state income tax. In fiscal 2004, we reversed the portion of our valuation allowance (approximately $11.2 million) that was equal to our U.S. taxable income, excluding taxable income subject to the U.S. alternative minimum tax. Until we can be reasonably assured that we can utilize our U.S. operating loss carryforwards, our income tax provision will reflect only U.S. alternative minimum tax, certain state tax and foreign taxation. Our tax expense in fiscal 2003 reflects income tax on income in foreign jurisdictions. In fiscal 2003, we established a valuation allowance against tax benefits from the fiscal 2003 losses in the U.S.

On October 22, 2004 the U.S. Government passed the American Jobs Creation Act. The Act provides for certain tax benefits including but not limited to the reinvestment of foreign earnings in the United States. We are currently evaluating the Act and may or may not benefit from such provisions.

Discontinued Operations. In February 1996, we 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 certain technologies and to provide wafer bumping services on a contract basis. In March 2001, we purchased the remaining interest in the joint venture owned by Delco for $5.0 million and included FCT in our then existing advanced packaging business segment. In fiscal 2003, our then existing advanced packaging business segment consisted solely of FCT, which was not profitable.

In February 2004, we sold the assets of FCT for approximately $3.4 million in cash and notes and the agreement by the buyer to satisfy approximately $5.2 million of our lease liabilities and the assumption of certain other liabilities. The sale included fixed assets, inventories, and intellectual property of our flip chip business. The major classes of FCT assets and liabilities sold included: $3.6 million in accounts receivable; $119 thousand in inventory; $2.5 million in property, plant and equipment; $119 thousand in other long term assets; $1.5 million in accounts payable and $1.0 million in accrued liabilities. We recorded a net loss on the sale of FCT of $380 thousand. Net sales from FCT in fiscal 2004 were $9.4 million, and in fiscal 2003 were $16.4 million. The net loss of our former flip chip business unit comprises our discontinued operations. Included in the fiscal 2003 loss from discontinued operations is an asset impairment charge of $6.9 million and a goodwill impairment charge of $5.7 million.

Net income (loss). Our net income in fiscal 2004 was $55.9 million compared to a net loss of $76.7 million in fiscal 2003, for the reasons enumerated above.

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Fiscal Years Ended September 30, 2003 and September 30, 2002

Bookings and Backlog. During the fiscal year ended September 30, 2003 we recorded bookings of $488.8 million compared to $444.4 million in fiscal 2002. At September 30, 2003, the backlog of customer orders totaled $59.9 million, compared to $49.0 million at September 30, 2002. 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.

Sales

Business segment net sales:

	(dollars amounts in thousands) Fiscal year ended September 30,		
	2002	**2003**	**% Change**
Equipment	$ 169,469	$ 198,447	17.1%
Packaging materials	157,176	174,471	11.0%
Test interconnect	114,698	104,882	-8.6%
Other	222	135	-39.2%
	$ 441,565	$ 477,935	8.2%

Sales. Net sales from continuing operations for the year ended September 30, 2003 were $477.9 million, an increase of 8.2% from $441.6 million in fiscal 2002.

Equipment sales were 17.1% higher in fiscal 2003 compared to the prior year due primarily to a 46.3% increase in unit sales of automatic ball bonders, which is the dominant product in the equipment business segment. The increase in ball bonder unit sales was partially offset by lower sales of other bonding machines and accessories. The blended average selling price per automatic ball bonder unit (ASP) in fiscal 2003 was flat compared to the prior year. However, ASPs generally go down over time for any particular model. To mitigate this we introduce new models with additional features that enable us to demand a higher selling price. The blended ASP varies with the proportion of newer models sold and with customer mix.

Packaging material sales in fiscal 2003 were 11.0% higher then the prior year. Our capillary unit sales were up 12.2% in fiscal 2003, while our blended capillary ASP was 5.1% below the prior year. Blended capillary ASP is a function of the general decline in unit prices and mix between high and low end capillaries. High end capillaries support advanced packaging applications and have higher ASP s. As in our equipment business, we introduce new capillaries with additional features that enable us to demand a higher selling price. Our wire unit sales (measured in Kft) decreased 9.4% in fiscal 2003 due primarily to a shift in product mix from the prior year. The lower wire unit sales were offset by an average increase of 16.2% in the price of gold, which is reflected in our gold wire ASP. The price of gold has a significant impact on our wire ASP and can fluctuate significantly from period to period. In fiscal 2003, the increase in the price of gold accounted for $13.9 million of the sales increase over the prior year.

Our test interconnect sales in fiscal 2003 were 8.6% below the prior year due primarily to lower unit sales in our cantilever product lines, partially offset by higher sales of vertical and package test products. ASPs are not meaningful in the test business due to lack of a standard unit of measure and the large difference in part types sold. As such, ASPs are not a metric used by the Company s management.

The majority of our sales are to customers that are located outside of the United States or have manufacturing facilities outside of the United States. Shipments of our products with ultimate foreign destinations comprised 80% of our total sales in fiscal 2003 compared to 74% in the prior fiscal year. The majority of these foreign sales were to customer locations in the Asia/Pacific region, including Taiwan, Malaysia, Singapore, Korea and Japan. Taiwan accounted for the largest single destination for our product shipments with 20.6% of our shipments in fiscal 2003 compared to 25.1% of our shipments in the prior fiscal year.

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Gross Profit

	(dollars amounts in thousands) Fiscal year ended September 30,			
	2002	% Sales	2003	% Sales
Equipment	$ 26,504	15.6%	$ 69,355	34.9%
Packaging materials	39,096	24.9%	41,692	23.9%
Test interconnect	35,012	30.5%	17,026	16.2%
Other	208	93.7%	135	100.0%
	$ 100,820	22.8%	$ 128,208	26.8%

Gross profit. Gross profit increased to $128.2 million in fiscal 2003 from $100.8 million in fiscal 2002. Included in the results for fiscal 2003 and fiscal 2002 are charges for inventory write-downs of $5.1 million and $14.4 million, respectively. The inventory write-down charge in fiscal 2003 was due primarily to excess and obsolete inventory and discontinued products. The charge for inventory write-downs in fiscal 2002 includes three distinct components: $7.8 million related to the write-down of spare parts inventories; $5.2 million associated with the discontinuance of our model 7700 dual spindle saw; and $1.3 million related to excess and obsolete inventory. We provide reserves for equipment inventory and for spare parts and consumables inventory considered to be in excess of 18 months of forecasted future demand. The forecasted demand is based upon internal projections, historical sales volumes, customer order activity and review of consumable inventory levels at our customers facilities. We communicate forecasts of our future demand to suppliers and adjust commitments to those suppliers accordingly. We review and dispose of our excess and obsolete inventory on a regular basis. In fiscal 2003 we disposed of $9.6 million of excess and obsolete inventory and in fiscal 2002 we disposed of $18.6 million of excess and obsolete inventory. The charges for inventory write-downs in fiscal 2003 and fiscal 2002 primarily involve items that are not part of our continuing product offerings and accordingly, should not have a significant impact on our future business or profitability.

Our equipment gross margin increased 19.3 percentage points from the prior year, of which 7.8 percentage points was due to the inventory write-offs discussed above. Excluding these inventory write-offs, equipment gross margin increased by 11.5 percentage points, due to 13.9% reduction in the cost per ball bonder unit produced. Our lower cost per unit reflected the lowering of production costs over a product life cycle along with a change in product mix and our continuing efforts to drive down our cost structure.

Our packaging materials gross margin was adversely affected by the higher price of gold in fiscal 2003 compared to fiscal 2002, which makes up a significant portion of our wire cost of sales. However, the higher capillary unit sales accounted for the increase in gross profit dollars.

Our test interconnect gross margin decreased 14.3 percentage points from fiscal 2002, of which 3.2 percentage points was due to the inventory write-offs discussed above. Lower sales and associated gross profit accounted for the remaining reduction in test gross margin.

Operating Expenses

	(dollars amounts in thousands) Fiscal year ended September 30,			
	2002	% Sales	2003	% Sales
Selling, general and administrative	$ 135,054	30.6%	$ 102,327	21.4%
Research and development, net	51,929	11.8%	38,121	8.0%
Resizing(recovery) costs	18,768	4.3%	(475)	-0.1%
Asset impairment	31,594	7.2%	3,629	0.8%
Goodwill impairment	74,295	16.8%		0.0%
Amortization of intangible assets	9,864	2.2%	9,260	1.9%
Loss on sale of product lines		0.0%	5,257	1.1%
	$ 321,504	72.8%	$ 158,119	33.1%

Selling, general and administrative expenses. Selling, general and administrative (referred to as SG&A) expenses decreased $32.7 million in fiscal 2003 or 24.2% from $135.1 million in fiscal 2002 to $102.3 million in fiscal 2003. The lower SG&A expenses in fiscal 2003 resulted primarily from our cost saving initiatives, principally related to reductions in employment levels. Included in the SG&A expense for fiscal 2003 were costs associated with workforce reductions (severance) of $5.2 million, start-up costs for our new China facility of approximately $2.0 million and a $0.7 million charge for the early termination of an information technology services agreement partially offset by the favorable reversal of a $2.0 million reserve, previously established for potential obligations to U.S. Customs. Included in the fiscal 2002 SG&A expense were workforce reductions (severance) of $5.0 million and training and start-up costs for our new China facility of $2.2 million.

The workforce reduction/severance charges identified in the previous paragraph were included in SG&A expense because they were not related to formal and distinct restructuring programs, but rather, they were normal and recurring management of employment levels in response to business conditions and our ongoing effort to reduce our cost structure. Also, if the business conditions had improved, we were prepared to rehire some of these terminated individuals. These charges are in contrast to the formal and distinct resizing programs we established in prior fiscal years.

Research and development . Research and development (R&D) expense in fiscal 2003 decreased $13.8 million or 26.6% from fiscal 2002. The lower R&D expense in fiscal 2003 was primarily due to the closure of our substrate business unit in the fourth quarter of fiscal 2002 and lower payroll and related expenses due to our ongoing cost reduction efforts.

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

In fiscal 2003, we reversed $475 thousand ($205 thousand in the first half of 2003) of these resizing charges due to the actual severance cost associated with the terminated positions being less than the cost originally estimated. We recorded resizing charges of $18.8 million in fiscal 2002 and $4.2 million in fiscal 2001.

In addition to the formal resizing costs identified below, we continued to downsize our operations in fiscal 2002 and 2003. These downsizing efforts resulted in workforce reduction charges of $5.6 million in fiscal 2003 and $5.0 million in fiscal 2002. In contrast to the resizing plans discussed above, these workforce reductions were not related to formal or distinct restructurings, but rather, the normal and recurring management of employment levels in response to business conditions and our ongoing effort to reduce our cost structure. In addition, during fiscal 2003, if the business conditions were to have improved, we were prepared to rehire some of these terminated individuals. These recurring workforce reduction charges were recorded as SG&A expenses.

A summary of the formal resizing plans initiated in fiscal 2002 and 2001 and acquisition restructuring plans initiated in fiscal 2001 appears below:

Fiscal 2001 and 2002 Resizing Plans and Acquisition Restructurings	Severance and Benefits (in thousands)	Commitments (in thousands)	Total (in thousands)
Provision for resizing plans in fiscal 2001	$ 4,166	$	$ 4,166
Acquisition restructurings	84	1,402	1,486
Payment of obligations in fiscal 2001	(2,101)	(213)	(2,314)
Balance, September 30, 2001	2,149	1,189	3,338
Provision for resizing plans in fiscal 2002:			
Continuing operations	9,486	9,282	18,768
Discontinued operations	893		893
Payment of obligations in fiscal 2002	(7,551)	(1,470)	(9,021)
Balance, September 30, 2002	4,977	9,001	13,978
Change in estimate	(475)		(475)
Payment of obligations in fiscal 2003	(3,590)	(3,211)	(6,801)
Balance, September 30, 2003	$ 912	$ 5,790	$ 6,702

The remaining balance of the resizing costs is included in accrued liabilities.

The individual resizing plans and acquisition restructuring plans initiated in fiscal 2002 and 2001 are identified below:

Charges in Fiscal Year 2002

Fourth Quarter 2002

In January 1999, we acquired the advanced substrate technology of MicroModule Systems, a Cupertino, California company, to enable production of high density substrates. While showing some progress in developing the substrate technology, the business was not profitable and would have required additional capital and operating cash to complete development of the technology. In light of the business downturn that was affecting the semiconductor industry at the time, in the fourth quarter of fiscal 2002, we announced that we could not afford further development of the substrate technology and would close our substrate operations. As a result, we recorded a resizing charge of $8.5 million. The resizing charge included a severance charge of $1.2 million for the elimination of 48 positions and lease obligations of $7.3 million. We expected, and achieved, annual payroll related savings of approximately $4.2 million and annual facility/operating savings of approximately $3.9 million as a result of this resizing plan. By June 30, 2003, all the positions had been eliminated. The plans have been completed but cash payments for the lease obligations are expected to continue into 2006, or such time as the obligations can be satisfied. In addition to these resizing charges, in the fourth quarter of fiscal 2002, we wrote-off $7.3 million of fixed assets and $1.1 million of intangible assets associated with the closure of the substrate operation. This substrate business was included in our then existing Advanced Packaging business segment.

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The resizing costs were included in accrued liabilities. The table below details the activity related to this resizing program during fiscal 2002 and 2003:

	(in thousands)		
Fourth Quarter 2002 Charge	**Severance and Benefits**	**Commitments**	**Total**
Provision for resizing	$ 1,231	$ 7,280	$ 8,511
Balance, September 30, 2002	1,231	7,280	8,511
Change in estimate:			
Change in estimate	(102)		(102)
Payment of obligations	(1,051)	(2,401)	(3,452)
Balance, September 30, 2003	$ 78	$ 4,879	$ 4,957

Third Quarter 2002

As a result of the continuing downturn in the semiconductor industry and our desire to improve the performance of its test business segment, we decided to move towards a 24 hour per-day manufacturing model in its major U.S. wafer test facility, which would provide its customers with faster turn-around time and delivery of orders and economies of scale in manufacturing. As a result, in the third quarter of fiscal 2002, we announced a resizing plan to reduce headcount and consolidate manufacturing in its test business segment. As part of this plan, we moved manufacturing of wafer test products from our facilities in Gilbert, Arizona and Austin, Texas to our facilities in San Jose, California and Dallas, Texas and from our Kaohsuing, Taiwan facility to our Hsin Chu, Taiwan facility. The resizing plan included a severance charge of $1.6 million for the elimination of 149 positions as a result of the manufacturing consolidation. The resizing plan also included a charge of $0.5 million associated with the closure of the Kaohsuing, Taiwan facility and an Austin, Texas facility representing costs of non-cancelable lease obligations beyond the facility closure and costs required to restore the production facilities to their original state. We expected, and achieved, annual payroll related savings of approximately $6.9 million and annual facility/operating savings of approximately $84 thousand as a result of this resizing plan. All of the positions have been eliminated and both facilities have been closed. The plans have been completed but cash payments for the severance are expected to continue through fiscal 2005 and cash payments for facility and contractual obligations are expected to continue through 2004, or such earlier time as the obligations can be satisfied.

The resizing costs were included in accrued liabilities. The table below details the activity related to this resizing program during fiscal 2002 and 2003.

	(in thousands)		
Third Quarter 2002 Charge	**Severance and Benefits**	**Commitments**	**Total**
Provision for resizing	$ 1,652	$ 452	$ 2,104
Payment of obligations	(547)	(219)	(766)

Balance, September 30, 2002	1,105	233	1,338
Payment of obligations	(800)	(72)	(872)
Balance, September 30, 2003	$ 305	$ 161	$ 466

Second Quarter 2002

As a result of the continuing downturn in the semiconductor industry and our desire to more efficiently manage our business, in the second quarter of fiscal 2002, we announced a resizing plan comprised of a functional realignment of business management and the consolidation and closure of certain facilities. In connection with the resizing plan, we recorded a charge of $11.3 million ($10.4 million in continuing operations and $0.9 million in discontinued operations), consisting of severance and benefits of $9.7 million for 372 positions that were to be eliminated as a result of the functional realignment, facility consolidation, the shift of certain manufacturing to China (including our hub blade business) and the move of our microelectronics products to Singapore and a charge of $1.6 million for the cost of lease commitments beyond the closure date of facilities to be exited as part of the facility consolidation plan.

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In the second quarter of fiscal 2002, we closed five test facilities: two in the United States, one in France, one in Malaysia, and one in Singapore. These operations were absorbed into other company facilities. The resizing charge for the facility consolidation reflects the cost of lease commitments beyond the exit dates that are associated with these closed test facilities.

To reduce our short term cash requirements, we decided, in the fourth quarter of fiscal 2002, not to relocate either our hub blade manufacturing facility from the United States to China or our microelectronics product manufacturing from the United States to Singapore, as previously announced. This change in our facility relocation plan resulted in a reversal of $1.6 million of the resizing costs recorded in the second quarter of fiscal 2002. As a result, we reduced our expected annual savings from this resizing plan for payroll related expenses by approximately $4.7 million.

Also in the fourth quarter of fiscal 2002, we reversed $600 thousand ($590 thousand in continuing operations and $10 thousand in discontinued operations) of the severance resizing expenses and in the fourth quarter of fiscal 2003 we reversed $353 thousand of resizing expenses, previously recorded in the second quarter of fiscal 2002, due to actual severance costs associated with the terminated positions being less than those estimated as a result of employees leaving the Company before they were severed.

As a result of the functional realignment, we terminated employees at all levels of the organization from factory workers to vice presidents. The organizational change shifted management of the Company businesses to functional (i.e. sales, manufacturing, research and development, etc.) areas across product lines rather than by product line. For example, research and development activities for the entire company are now controlled and coordinated by one corporate vice president under the functional organizational structure, rather than separately by each business unit. This structure provides for a more efficient allocation of human and capital resources to achieve corporate R&D initiatives.

We expected annual payroll related savings of approximately $17.3 million and annual facility/operating savings of approximately $660 thousand as a result of this resizing plan. As a result of the decision not to relocate either our hub blade manufacturing facility or its microelectronics product manufacturing, we ultimately achieved annual payroll related savings of approximately $12.7 million. The plans have been completed but cash payments for the severance charges and the facility and contractual obligations are expected to continue into fiscal 2005, or such time as the obligations can be satisfied.

The resizing costs were included in accrued liabilities. The table below details the activity related to this resizing program during fiscal 2002 and 2003.

	(in thousands)		
Second Quarter 2002 Charge	**Severance and Benefits**	**Commitments**	**Total**
Provision for resizing - Continuing operations	$ 8,830(1)	$ 1,550	$ 10,380
Provision for resizing - Discontinued operations	903		903
Change in estimate - Continuing operations	(2,227)		(2,227)
Change in estimate - Discontinued operations	(10)		(10)
Payment of obligations	(5,367)(1)	(81)	(5,448)
Balance, September 30, 2002	2,129	1,469	3,598
Change in estimate	(353)		(353)

Payment of obligations	(1,284)	(719)	(2,003)
Balance, September 30, 2003	$ 492	$ 750	$ 1,242

(1) Includes $2.6 million non-cash charge for modifications of stock option awards that were granted prior to December 31, 2001 to the employees affected by the resizing plans in accordance with our annual grant of stock options to employees

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Charges in Fiscal Year 2001

Fourth Quarter 2001

As part of our efforts to more efficiently manage our business and reduce operating costs, we announced in the fourth quarter of fiscal 2001 that we would close our bonding wire facility in the United States and move the production capacity to our bonding wire facility in Singapore. We recorded a resizing charge for severance of $2.4 million for the elimination of 215 positions, all of which had been terminated at September 30, 2002. We expected, and achieved, annual payroll related savings of approximately $11.5 million. Also in the fourth quarter of fiscal 2001, we recorded an increase to goodwill of $0.8 million, in connection with the acquisition of Probe Technology, for additional lease costs associated with the elimination of four duplicate facilities in the United States. The plans have been completed but cash payments for the severance charge were expected to continue through 2004.

The resizing costs were included in accrued liabilities. The table below details the activity related to this resizing program during fiscal 2001, 2002 and 2003.

	(in thousands)		
Fourth Quarter 2001 Charge	**Severance and Benefits**	**Commitments**	**Total**
Provision for resizing	$ 2,457	$	$ 2,457
Acquisition restructuring		840	840
Payment of obligations	(402)		(402)
Balance, September 30, 2001	2,055	840	2,895
Payment of obligations	(1,543)	(840)	(2,383)
Balance, September 30, 2002	512		512
Change in estimate	(20)		(20)
Payment of obligations	(455)		(455)
Balance, September 30, 2003	$ 37	$	$ 37

Second Quarter 2001

As a result of a downturn in the semiconductor industry, in the quarter ended March 31, 2001, we announced a 7.0% reduction in our workforce. As a result, we recorded a resizing charge for severance of $1.7 million for the elimination of 296 positions across all levels of the organization, all of which were terminated prior to March 31, 2002. We expected, and achieved, annual payroll related savings of approximately $7 million. In connection with our acquisition of Probe Tech, we also recorded an increase to goodwill for $0.6 million for severance, lease and other facility charges related to the elimination of four leased Probe Technology facilities in the United States, which were found to be duplicative with the Cerprobe facilities. The plans have been completed and there will be no additional cash payments related to severance and facility obligations under this program.

The resizing costs were included in accrued liabilities. The table below details the activity related to this resizing program during fiscal 2001, 2002 and 2003:

	(in thousands)		
Second Quarter 2001 Charge	**Severance and Benefits**	**Commitments**	**Total**
Provision for resizing	$ 1,709	$	$ 1,709
Acquisition restructuring	84	562	646
Payment of obligations	(1,699)	(213)	(1,912)
Balance, September 30, 2001	94	349	443
Payment of obligations	(94)	(330)	(424)
Balance, September 30, 2002		19	19
Payment of obligations		(19)	(19)
Balance, September 30, 2003	$	$	$

Asset impairment. In addition to the workforce resizings and the facility consolidations, over the past two fiscal years we have terminated several of our major initiatives in an effort to more closely align our cost structure with expected revenue levels. As a result, we recorded asset impairment charges of $3.6 million in fiscal 2003 and $31.6 million in fiscal 2002. The fiscal 2003 charge included: $1.7 million associated with the discontinuation of a test product; $1.2 million due to the reduction in the size of a test facility in Dallas, Texas; and $730 thousand resulting from the write-down of assets that were sold and assets that became obsolete. The fiscal 2002 charge included: $16.9 million associated with the cancellation of a company-wide integrated information system; $8.4 million associated with the closure of the substrates operation; $3.6 million charge for the write-off of development and license costs of certain engineering and manufacturing software, which had not yet been completed or placed in service and would never be utilized; $1.4 million associated with a closed wire facility in Taiwan; and $1.3 million related to leasehold improvements at the leased probe card manufacturing facilities in Malaysia and the United States, which have been closed.

We also recorded an asset impairment charge of $6.9 million, to write-down assets to their realizable value, in our discontinued operation.

Goodwill impairment. Effective October 1, 2001, we adopted SFAS 142, Goodwill and Other Intangible Assets. The intangible assets that are classified as goodwill and those with indefinite lives are no longer amortized under the provisions of this standard. Intangible assets with determinable lives continue to be amortized over their estimated useful life. We perform our annual impairment test at the end of the fourth quarter of each fiscal year, which coincides with the completion of our annual forecasting process. We also test for impairment between our annual tests if a trigger event occurs that may have the effect of reducing the fair value of a reporting unit below its carrying value. When conducting our goodwill impairment analysis, we calculate our potential impairment charges based on the two-step test identified in SFAS 142 and using the implied fair value of the respective reporting units. We use the present value of future cash flows from the respective reporting units to determine the implied fair value. Our intangible assets other than goodwill are tested for impairment based on undiscounted cash flows, and if impaired, written-down to fair value based on either discounted cash flows or appraised values. Our intangible assets are comprised of customer accounts and complete technology in its test interconnect business segment. We manage and value our complete technology in the aggregate as one asset group.

In fiscal 2002, we reviewed our business and determined that there are five reporting units to be reviewed for impairment in accordance with the standard the reporting units were: the bonding wire, hub blade, substrate, flip chip and test businesses. The bonding wire and hub blade businesses were included in our packaging materials segment, the substrate business was included in our advanced packaging segment, the test business comprised our test segment and the flip chip business unit is included in discontinued operations. There is no goodwill associated with our equipment segment. Upon adoption of SFAS 142 in the first quarter of fiscal 2002, we completed the required transitional impairment testing of intangible assets, and based upon those analyses, did not identify any impairment charges as a result of adoption of this standard effective October 1, 2001.

Upon adoption of the standard in fiscal 2002, we reclassified $17.2 million of intangible assets relating to an acquired workforce in the test reporting unit into goodwill and correspondingly reduced goodwill by $4.9 million of goodwill associated with a deferred tax liability established for timing differences of U.S. income taxes on the workforce

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intangible. Also in fiscal 2002, we reduced goodwill associated with the test reporting unit by $1.5 million reflecting the settlement of a purchase price dispute with the former owners of Probe Technology and increased goodwill associated with its flip chip reporting unit by $96 thousand reflecting an increase in the cost to purchase the former joint venture partner s equity share.

In fiscal 2001, 2002 and 2003, the semiconductor industry experienced a severe industry downturn. Due to the prolonged nature of the industry downturn, we continually recalibrated our businesses and projections of future operating activities. We saw an up-tick in our business in the spring of 2002 and at that time believed we were emerging from the effects of an industry downturn. However, this up-tick in business was not sustained and our business turned back down in the second half of fiscal 2002. By the end of our fiscal 2002, our recalibrated forecasts of future cash flows from our test, hub blades and substrate reporting units were substantially lower than in the beginning of that fiscal year, which lead to the closing of the substrate business and an associated write-off of all the substrate intangible assets of $1.1 million and goodwill impairment charges in the test business of $72.0 million and in our hub blades business of $2.3 million. Likewise, by the end of fiscal 2003, our forecast of future cash flows from our flip chip business unit were lower than previous forecasts and resulted in goodwill and asset impairment charges of $5.7 million and the subsequent sale of the assets of this business. We recorded goodwill impairment charges in the period in which our analysis of future business conditions indicated that the reporting unit s fair value, and the implied value of its goodwill, was less than its carrying value.

Due to the amount of goodwill associated with our test reporting unit, we retained a third party valuation firm to assist management in estimating the test reporting unit s fair value at September 30, 2002. The appraisal was based on discounted cash flows of this reporting unit. The estimated fair value was determined using our weighted average cost of capital. The estimated fair value was then corroborated by comparing the implied multiples applicable to the test reporting unit s projected earning to guideline companies forward earnings and based on this it was determined that they were within the range of the guideline companies. The fair value of our test reporting unit at September 30, 2003 was determined in the same manner, however, as it was greater than the carrying value of the reporting unit, there was no goodwill impairment.

We also recorded a goodwill impairment charge at September 30, 2002 in our hub blade reporting unit. We calculated the fair value of this reporting unit based on the present value of its projected future cash. The estimated fair value was determined using our weighted average cost of capital. The triggering event for this impairment charge was the recalibrated forecasts, in the fourth quarter of fiscal 2002, when we first determined that the fair value of the hub blade reporting unit was less than its carrying value.

In September 2003, we recorded a goodwill impairment charge at our flip chip business unit. The fair value of this reporting unit was determined using quoted prices from potential purchasers of this reporting unit. The quoted prices were subsequently confirmed upon the sale of the assets of the flip chip reporting unit in February of 2004. The triggering event for this impairment charge was also recalibrated forecasts in the fourth quarter of fiscal 2003, when we first determined that the fair value of our flip chip reporting unit was less than its carrying value.

Amortization of goodwill and intangibles. Amortization expense was $9.3 million in fiscal 2003 compared to $9.9 million in fiscal 2002. The lower amortization expense in fiscal 2003 was due to the elimination of amortization expense in fiscal 2003 on acquired technology at our former substrate business that was written-off upon the closure of this business in the fourth quarter of fiscal 2002. The amortization expense in fiscal 2003 is associated with the intangible assets of our test business unit.

Loss on sale of product lines. In the fourth quarter of fiscal 2003, we sold the fixed assets, inventories and intellectual property associated with our sawing and hard material blade product lines for $1.2 million in cash. We wrote-off $6.5 million of net assets associated with the transaction. In addition, we sold the assets associated with our polymers business for $105 thousand. This loss on sale of product lines of $5.3 million has been reclassified to be included in our operating expenses section of the consolidated statement of operations, from its prior presentation outside of the operating results.

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Income (loss) from Operations

Income (loss) from operations by segment appears below:

	(dollars amounts in thousands) Fiscal year ended September 30,			
	2002	**% Sales**	**2003**	**% Sales**
Equipment	$ (65,462)	-38.6%	$ (2,323)	-1.2%
Packaging materials	6,518	4.1%	15,008	8.6%
Test interconnect	(95,065)	-82.9%	(27,192)	-25.9%
Corporate and other	(66,675)	NA	(15,404)	NA
	$ (220,684)	-50.0%	$ (29,911)	-6.3%

Our loss from operations in fiscal 2003 was $29.9 million compared to $220.7 million in the prior fiscal year. The smaller operating loss in fiscal 2003 compared to fiscal 2002 was due primarily to higher sales and gross profit, lower SG&A and R&D expenses, no resizing expenses, and lower asset and goodwill impairment charges.

Equipment operating loss was reduced from $65.5 million to $2.3 million due primarily to higher sales and gross profit and lower operating costs. Packaging materials operating income increased by $8.5 million or 130.3% due primarily to recording $5.2 million of assets and goodwill impairment charges in the prior year and higher sales and gross profit in the current year. Test interconnect operating loss was $67.9 million less then the prior year due primarily to recording $73.2 million of goodwill and assets impairment charges in the prior year compared to $3.1 million of assets impairment charges in fiscal 2003. In order to improve the operating results of this business, we plan to consolidate test facilities, transfer a greater portion of the test production to our Asian facilities, outsourcing a greater portion of the test production, and new product introductions. We expect implementation of this plan will continue through 2005 and will result in future period charges and/or restructuring charges. Our loss from corporate and other activities was $51.3 million less than the prior year due to asset impairment charges of $25.3 million and operating costs of our former substrate operation recorded in the prior year.

Interest. Interest income in fiscal 2003 was $940 thousand compared to $3.8 million in the prior year. The lower interest income was due primarily to lower cash balances to invest coupled with lower interest rates on short-term investments. Interest expense was $17.4 million in fiscal 2003 compared to $18.7 million in the prior year. The lower interest expense in fiscal 2003 resulted from the elimination in fiscal 2003 of interest associated with a receivable securitization program, which was cancelled in July of 2002.

Other income and minority interest. Other income of $2.0 million in fiscal 2002 was associated with the cash settlement of an insurance claim associated with a fire in our bonding tools facility. Other income also includes minority interest of $10 thousand in fiscal 2002 for the portion of the loss of a foreign test division subsidiary that was owned by a third party. We purchased the third party s interest in fiscal 2002.

Tax expense. We recognized tax expense of $7.6 million in fiscal 2003 compared to $32.6 million in fiscal 2002. The tax expense in fiscal 2003 represents income tax on foreign earnings and reserves for foreign withholding tax on repatriation of certain foreign earnings. In fiscal 2003 we established a valuation allowance of $12.1 million against our U.S and foreign net operating losses. The tax expense in fiscal 2002 was due primarily to a $65.3 million charge to establish a valuation allowance against our U.S. net operating loss carryforwards, a $25.0 million charge to provide for tax expense on repatriation of certain foreign earnings and foreign income taxes of $7.1 million. These charges were partially offset by a benefit of $49.5 million from the pretax loss in the U.S.

Discontinued Operations. The net loss of our former Flip Chip business unit comprises our discontinued operations. Included in the fiscal 2003 loss from discontinued operations are an asset impairment charge of $6.9 million and a goodwill impairment charge of $5.7 million.

Net loss. Our net loss for fiscal 2003 was $76.7 million compared to a net loss of $274.1 million in fiscal 2002, for the reasons enumerated above.

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Quarterly Results of Operations

The table below shows our quarterly net sales, gross profit and operating income (loss) by quarter for fiscal 2004 and 2003:

	(in thousands)				
Fiscal 2004	**First Quarter**	**Second Quarter**	**Third Quarter**	**Fourth Quarter**	**Total**
Net sales	$ 153,869	$ 221,771	$ 194,628	$ 147,543	$ 717,811
Gross profit	47,362	76,534	65,072	42,037	231,005
Income (loss) from operations	12,155	34,409	29,299	8,082	83,945
Fiscal 2003	**First Quarter**	**Second Quarter**	**Third Quarter**	**Fourth Quarter**	**Total**
Net sales	$ 107,259	$ 122,280	$ 123,782	$ 124,614	$ 477,935
Gross profit	28,637	34,231	32,103	33,237	128,208
Loss from operations	(9,696)	(8,079)	(4,105)	(8,031)	(29,911)

LIQUIDITY AND CAPITAL RESOURCES

At September 30, 2004, total cash and investments were $95.8 million compared to $73.1 million at September 30, 2003. Cash and investments increased $22.7 million from September 30, 2003 due primarily to the following:

- We generated $71.3 million from operating activities, despite carrying higher accounts receivable and inventory of $19.3 million and $23.4 million, respectively, compared to the end of the prior year. The higher accounts receivable and inventory reflected the sharp drop off in sales activity in the fourth quarter. The inventory increase also included $11.2 million of gold not included in the prior year;

- Our financing activities resulted in lowering our long term debt by $30 million and reducing our annual cash interest expense by $13.2 million, from September 30, 2003 to September 30, 2004, by;

  - Raising $199.3 million in net proceeds from the issuance of 0.5% convertible subordinated notes;

  - Raising $63.2 million in net proceeds from the issuance of 1.0% convertible subordinated notes;

  - Spending $178.6 million to redeem all of our 4.75% convertible subordinated notes;

  - Spending $127.4 million to redeem all of our 5.25% convertible subordinated notes.

We spent $13.4 million on capital expenditures: some of the major projects were: $1.8 million on cantilever test production capacity; $1.5 million on advanced bonder development; $1.5 million on IT systems upgrades; $1.5 million on tool production capacity; and $0.8 million on gold wire manufacturing capacity.

We received $4.2 million from the exercise of stock options; and

We received $3.4 million from the sale of our Flip Chip business unit.

Our primary need for cash for the next fiscal year will be to provide the working capital necessary to meet our expected production and sales levels and to make the necessary capital expenditures to enhance our production and operating activities. We expect our fiscal 2005 capital expenditure needs to be approximately $20 million. We financed our working capital needs and capital expenditure needs in fiscal 2004 through internally generated funds from our equipment and packaging materials businesses and expect to continue to generate cash from operating activities in fiscal 2005 to meet our cash needs. We expect to use the excess cash generated from our equipment and packaging materials business to fund the operation of our test business until such time that our test performance improvement plans are complete and our test segment is self-funding.

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Our long term debt at September 30, 2003 and 2004 consisted of the following:

Type	Fiscal Year of Maturity	Conversion Price(1)	Rate	(in thousands) Outstanding Balance at, September 30, 2003	2004
Convertible Subordinated Notes	2006	$ 19.75	5.25%	$ 125,000	$
Convertible Subordinated Notes	2007	$ 22.90	4.75%	175,000	
Convertible Subordinated Notes	2009	$ 20.33	0.50%		205,000
Convertible Subordinated Notes	2010	$ 12.84	1.00%		65,000
Other(2)				338	5,725
				$ 300,338	$ 275,725

(1) Subject to adjustment.
(2) Includes a mortgage of $5.4 million held by a limited liability company which the Company began consolidating into its financial statements at December 31, 2003 in accordance with FIN 46.

In the quarter ended December 31, 2003, we issued $205 million of 0.5% Convertible Subordinated Notes in a private placement to qualified institutional investors. The notes mature on November 30, 2008, bear interest at 0.5% per annum and are convertible into common stock of the Company at a conversion price of $20.33 per share, subject to adjustment for certain events. The notes are general obligations of the Company and are subordinated to all senior debt. The notes rank equally with the Company s 1.0% Convertible Subordinated Notes. There are no financial covenants associated with the notes and there are no restrictions on incurring additional debt or issuing or repurchasing our securities. Interest on the notes is payable on May 30 and November 30 each year. We used the majority of the net proceeds from the issuance of the 0.5% Convertible Subordinated Notes to redeem all of our $175 million of 4.75% Convertible Subordinated Notes at a redemption price equal to 102.036% of the principal amount of the 4.75% notes. We recorded a charge of $6.2 million associated with the redemption of these notes, $2.6 million of which was due to the write-off of unamortized note issuance costs and $3.6 million due to the redemption premium.

In the quarter ended June 30, 2004, we issued $65 million of 1.0% Convertible Subordinated Notes in a private placement to qualified institutional investors. The Notes mature on June 30, 2010, bear interest at 1.0% per annum and are convertible into common stock of the Company at a conversion price of $12.84 per share, subject to adjustment for certain events. The conversion rights of these Notes may be terminated on or after June 30, 2006 if the closing price of our common stock has exceeded 140% of the conversion price then in effect for at least 20 trading days within a period of 30 consecutive trading days. The notes are general obligations of the Company and are subordinated to all senior debt. The notes rank equally with our 0.5% Convertible Subordinated Notes. There are no financial covenants associated with the 1.0% notes and there are no restrictions on incurring additional debt or issuing or repurchasing our securities. Interest on the notes is payable on June 30 and December 30 each year.

We used the net proceeds from the issuance of the 1.0% Convertible Subordinated Notes along with cash remaining from the issuance of the 0.5% Convertible Subordinated Notes and cash from operations to purchase all of our 5.25% Convertible Subordinated Notes at purchase prices between 101.0% and 102.1% of the principal amount of the 5.25% notes. The Company recorded a charge of $4.4 million associated with the purchase of these notes, $2.0 million of which was due to the write-off of unamortized note issuance costs and $2.4 million due to the purchase premium.

Under GAAP, certain obligations and commitments are not required to be included in our consolidated balance sheets and statements of operations. These obligations and commitments, while entered into in the normal course of business, may have a material impact on our liquidity. Certain of the following commitments as of September 30, 2004 have not been included in our consolidated balance sheet and statements of operations included in this Form 10-K; however, they have been disclosed in the following table in order to provide a more complete picture of our financial position and liquidity. The most significant of these are our operating lease commitments and inventory purchase obligations.

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The following table identifies obligations and contingent payments under various arrangements at September 30, 2004, including those not included in our consolidated balance sheet:

	(in thousands)				
	Total	**Amounts due in less than 1 year**	**Amounts due in 2-3 years**	**Amounts due in 4-5 years**	**Amounts due in more than 5 years**
Contractual Obligations:					
Long-term debt	$ 275,400	$ 5,400	$	$ 205,000	$ 65,000
Capital Lease obligations	325	41	82	82	120
Operating Lease obligations*	34,077	8,628	9,609	5,221	10,619
Inventory Purchase obligations*	40,127	40,127			
Commercial Commitments:					
Gold supply financing guarantee	11,196	11,196			
Standby Letters of Credit*	3,094	3,094			
Total Contractual Obligations and Commercial Commitments	$ 364,219	$ 68,486	$ 9,691	$ 210,303	$ 75,739

* Represents contractual amounts not reflected in the consolidated balance sheet at September 30, 2004.

Long-term debt includes the amounts due under our 0.5% Convertible Subordinated Notes due 2008, 1.0% Convertible Subordinated Notes due 2010 and a mortgage of $5.4 million held by a limited liability company which the Company began consolidating into its financial statements at December 31, 2003 in accordance with FIN 46. The capital lease obligations principally relate to a building lease. The operating lease obligations represent obligations due under various facility and equipment leases with terms up to fifteen years in duration. Inventory purchase obligations represent outstanding purchase commitments for inventory components ordered in the normal course of business.

To reduce the cost to procure gold, we changed our gold supply financing arrangement in fiscal 2004. As a result, gold for wire fabrication is no longer treated as consignment goods and is now reflected and included in our inventory with a corresponding amount in accounts payable. At September 30, 2004, both our inventory and accounts payable included $11.2 million of this gold compared to none at September 30, 2003. Although we no longer purchase gold on a consignment basis, our obligation to pay for the gold generally does not arise, and the price we pay for the gold is not fixed, until we price and sell the gold wire to our customers. The guarantee for our gold supply financing arrangement is secured by the assets of our wire manufacturing subsidiary and contains restrictions on that subsidiary s net worth, ratio of total liabilities to net worth, ratio of EBITDA to interest expense and ratio of current assets to current liabilities, all of which we were within compliance.

The standby letters of credit represent obligations of the Company in lieu of security deposits for a facility lease and employee benefit programs.

At September 30, 2004, the fair value of our $205.0 million 0.5% Convertible Subordinated Notes was $145.8 million, and the fair value of our $65.0 million 1.0% Convertible Subordinated Notes was $47.5 million. The fair values were determined using quoted market prices at the balance sheet date. The fair value of our other assets and liabilities approximates the book value of those assets and liabilities. At September 30, 2004, the Standard & Poor s rating on our 0.5% convertible subordinated notes was CCC+ and our 1.0% convertible subordinated notes were not rated.

We have 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. Our funding policy is consistent with the funding requirements of U.S. Federal employee benefit and tax laws. We contributed approximately $2.8 million (based on the market price at the

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time of contribution) in Company stock to the Plan in Fiscal 2004 and $1.0 million in fiscal 2003. In fiscal 2005, we expect to make a contribution of Company common stock of approximately $1.5 million. 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.

We believe that our existing cash reserves and anticipated cash flows from operations will be sufficient to meet our liquidity and capital requirements for at least the next 12 months. However, our liquidity is affected by many factors, some based on normal operations of the business and others related to uncertainties of the industry and global economies. We may seek, as we believe appropriate, additional debt or equity financing to provide capital for corporate purposes. We may also seek additional debt or equity financing for the refinancing or redemption of existing debt and/or to fund strategic business opportunities, including possible acquisitions, joint ventures, alliances or other business arrangements which could require substantial capital outlays. The timing and amount of such potential capital requirements cannot be determined at this time and will depend on a number of factors, including demand for our products, semiconductor and semiconductor capital equipment industry conditions, competitive factors, the condition of financial markets and the nature and size of strategic business opportunities which we may elect to pursue.

CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

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QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to changes in interest rates primarily from our investments in certain available-for-sale securities. Our available-for-sale securities consist primarily of fixed income investments (corporate bonds, commercial paper and U.S. Treasury and Agency securities). We continually monitor our exposure to changes in interest rates and credit ratings of issuers with respect to our available-for-sale securities and target an average life to maturity of less than eighteen months. Accordingly, we believe that the effects of changes in interest rates and credit ratings of issuers are limited and would not have a material impact on our financial condition or results of operations. At September 30, 2004, we had a non-trading investment portfolio of fixed income securities, excluding those classified as cash and cash equivalents, of $32.2 million (see Note 7 of the Company s Consolidated Financial Statements). If market interest rates were to increase immediately and uniformly by 10% from levels as of September 30, 2004, the fair market value of the portfolio would decline by approximately $68 thousand.

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SELLING SECURITYHOLDERS

We originally issued the notes in a private placement in June 2004. The selling securityholders, including their assignees, transferees, pledgees or donees or their successors, may from time to time offer and sell under this prospectus or a supplement hereto any or all of the notes and the common stock issuable upon conversion of the notes. In the event that a sale is to be made pursuant to this prospectus by a pledgee or other transferee, we will provide appropriate information regarding such pledgee or transferee by a prospectus supplement or post-effective amendment, if necessary, naming such pledgee or transferee as a selling securityholder.

The following table contains information we received from the selling securityholders on or before December 13, 2004, with respect to the selling securityholders and the principal amount of notes and the underlying common stock beneficially owned by each selling securityholder before the offering and that may be offered using this prospectus.

NAME	PRINCIPAL AMOUNT OF NOTES BENEFICIALLY OWNED THAT MAY BE SOLD	PERCENTAGE OF NOTES OUTSTANDING	NUMBER OF SHARES OF COMMON STOCK OWNED PRIOR TO THE OFFERING(1)	NUMBER OF SHARES OF COMMON STOCK THAT MAY BE SOLD (1)	PERCENTAGE OF COMMON STOCK OUTSTANDING (2)
Basso Multi-Strategy Holding Fund Ltd.	4,500,000	6.9%	350,434	350,434	*
BNP Paribas Equity Strategies, SNC	2,106,000	3.2%	169,246	164,003	*
Canyon Capital Arbitrage Master Fund, Ltd.	1,350,000	2.1%	296,965	105,130	*
Canyon Value Realization Fund, L.P.	675,000	1.0%	148,482	52,565	*
Canyon Value Realization MAC 18, Ltd. (RMF)	270,000	*	59,393	21,026	*
Clinton Multistrategy Master Fund, Ltd.	2,860,000	4.4%	222,720	222,720	*
Clinton Riverside Convertible Portfolio Limited	1,472,000	2.2%	114,631	114,631	*
CooperNeff Convertible Strategies (Cayman) Master Fund LP	2,074,000	3.2%	161,511	161,511	*
Credit Suisse First Boston LLC	2,500,000	3.8%	194,685	194,685	*
DKR SoundShore Oasis Holding Fund Ltd.	4,800,000	7.4%	373,797	373,797	*
DKR SoundShore Strategic Holding Fund Ltd.	1,200,000	1.8%	93,449	93,449	*
Geode U.S. Convertible Arbitrage Fund, a segregated account of Geode Capital Master Fund	3,500,000	5.4%	272,560	272,560	*

Ltd.					
KBC Financial Products USA, Inc.	1,000,000	1.5%	107,387	77,874	*
Lyxor/Convertible Arbitrage Fund Limited	374,000	*	29,125	29,125	*
LDG Limited	166,000	*	12,927	12,927	*
MSS Convertible Arbitrage 1	8,000	*	623	623	*
Partners Group Alternative Strategies PCC - Green Delta Cell	1,592,000	2.4%	123,976	123,976	*
Singlehedge US Convertible Arbitrage Fund	517,000	*	40,261	40,261	*
Sphinx Convertible Arbitrage (Clinton) Segregated Portfolio	1,576,000	2.4%	122,730	122,730	*
Sphinx Fund	70,000	*	5,451	5,451	*
Sturgeon Limited	429,000	*	33,408	33,408	*
The Canyon Value Realization Fund (Cayman), Ltd.	1,845,000	2.8%	405,852	143,678	*
TQA Master Fund, Ltd.	1,329,000	2.0%	103,495	103,495	*
TQA Master Plus Fund Ltd.	2,597,000	4.0%	202,240	202,240	*
UBS O Connor LLC f/b/o O Connor Global Convertible Arbitrage Master Ltd.	1,500,000	2.3%	116,811	116,811	*
Victus Capital, LP	1,250,000	1.9%	97,343	97,343	*
Victus Capital Master Fund	1,250,000	1.9%	97,343	97,343	*
Xavex Convertible Arbitrage 7 Fund	453,000	*	35,277	35,277	*
Zurich Institutional Benchmarks Master Fund Ltd.	272,000	*	21,182	21,182	*

* Less than 1%

(1) Assumes conversion of all of the holder s notes at a conversion rate of 77.8743 shares per $1,000 principal amount of notes. However, this conversion price is subject to adjustment as described under Description of Notes Conversion of the Notes. As a result, the amount of common stock issuable upon conversion of the notes may increase or decrease in the future.

(2) Calculated based on Rule 13d-3(d)(1)(i) of the Exchange Act using 51,340,444 shares of common stock outstanding as of December 10, 2004. In calculating this amount, we treated as outstanding the number of shares of common stock issuable upon conversion of all of that particular holder s notes. However, we did not assume the conversion of any other holder s notes.

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We prepared this table based on the information supplied to us by the selling securityholders named in the table.

The selling securityholders listed in the above table may have sold or transferred some or all of their notes or the underlying common stock since the date on which they provided us with information regarding their notes and common stock, and we have not made any independent inquiries as to the foregoing. Information about the selling securityholders may change over time. Any changed information will be set forth to the extent provided to us by the selling securityholders, in prospectus supplements, if and when necessary.

Because the selling securityholders may offer all or some of their notes or the underlying common stock from time to time, we cannot estimate the amount of the notes or underlying common stock that will be held by the selling securityholders upon the termination of any particular offering. See Plan of Distribution.

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DESCRIPTION OF NOTES

The notes were issued under an indenture dated as of June 30, 2004, between Kulicke and Soffa Industries, Inc., as issuer, and J.P. Morgan Trust Company, National Association, as trustee. The notes are covered by a registration rights agreement pursuant to which the registration statement was filed of which this prospectus forms a part. You may request a copy of the indenture and the registration rights agreement from the trustee.

The following description is a summary of the material provisions of the notes and the indenture. It does not purport to be complete. This summary is subject to and is qualified in its entirety by reference to all the provisions of the indenture, including the definitions of certain terms used in the indenture.

As used in this Description of Notes section, references to Kulicke & Soffa, we, our or us refer solely to Kulicke and Soffa Industries, Inc., a not to our subsidiaries.

General

The notes are general unsecured debt. Our payment obligations under the notes are subordinated to our senior indebtedness as described under Subordination of the Notes. The notes rank equally with our 0.5% Convertible Subordinated Notes due 2008. The notes are convertible (unless the right to convert the notes is terminated as described under Termination of Conversion Right) into common stock as described under Conversion of the Notes.

The notes are limited to $65 million aggregate principal amount. The notes have been issued only in denominations of $1,000 and multiples of $1,000. The notes will mature on June 30, 2010, unless converted earlier or purchased by us at your option upon a fundamental change.

Neither we nor any of our subsidiaries are subject to any financial covenants under the indenture. In addition, neither we nor any of our subsidiaries are restricted under the indenture from paying dividends, incurring debt, including senior indebtedness, or issuing or repurchasing our securities.

You are not afforded protection under the indenture in the event of a highly leveraged transaction or a fundamental change of Kulicke & Soffa except to the extent described below under Fundamental Change.

We will pay interest on June 30 and December 30 of each year, beginning on December 30, 2004, to recordholders at the close of business on the preceding June 15 and December 15, as the case may be, except:

- interest payable upon purchase in connection with a fundamental change will be paid to the person to whom principal is payable, unless the purchase date is an interest payment date, in which case it is payable to the holder of record on the record date for the payment of interest; and

as set forth in the next sentence.

If you convert your notes into common stock on an interest payment date or on the final maturity date, you will be paid the interest due on that date if you are the holder of record on the preceding record date. If you convert any of your notes into common stock during the period after any record date but before the next interest payment date, one of the following will occur:

we will not be required to pay interest on the interest payment date if we have elected to terminate your right to convert your notes unless, in the case of the June 30, 2006 interest payment only, we have elected to terminate your right to convert the notes as provided below under Termination of Conversion Right and such conversion occurs within five days before June 30, 2006; or

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if otherwise, any note that is submitted for conversion during this period must also be accompanied by an amount equal to the interest due on the interest payment date on the converted principal amount, unless at the time of conversion there is a default in the payment of interest on the notes or, unless, in the case of the June 30, 2006 interest payment only, we have elected to terminate your right to convert the notes as provided below under Termination of Conversion Right and such conversion occurs within five days before June 30, 2006. See Conversion of the Notes.

We will maintain an office in the Borough of Manhattan, the City of New York for the payment of interest, which will initially be an office or agency of the trustee. We may pay interest either:

by check mailed to your address as it appears in the note register, but if you are a holder with an aggregate principal amount in excess of $2.0 million, we will pay you, at your written election, by wire transfer in immediately available funds; or

by transfer to an account maintained by you in the United States.

However, payments to The Depository Trust Company, New York, New York, which we refer to as DTC, will be made by wire transfer of immediately available funds to the account of DTC or its nominee. Interest will be computed on the basis of a 360-day year composed of twelve 30-day months.

Conversion of the Notes

You may convert your notes, in whole or in part, into common stock on or before the final maturity date of the notes, subject to prior purchase of the notes upon a fundamental change or our election to terminate your right to convert your notes. The number of shares of common stock you will receive upon conversion of your notes will be determined by multiplying the number of $1,000 principal amount of the notes you convert by the conversion rate on the date of conversion. If you convert your notes after receipt of a notice of a fundamental change and before the purchase date, and the fundamental change constitutes a cash buy-out, we will pay you a make-whole premium, in cash, in addition to the shares of common stock you receive upon conversion of your notes as provided below under Fundamental Change. If you have tendered your notes for purchase upon a fundamental change and your right to convert the notes has not previously been terminated, you may convert your notes only if you withdraw your election to tender your notes. You may convert your notes in part so long as this part is $1,000 principal amount or an integral multiple of $1,000. If any notes are converted after a record date for any interest payment date and before the next interest payment date, the notes must be accompanied by an amount equal to the interest payable on the interest payment date on the converted principal amount, unless a default in the payment of interest on the notes exists at the time of conversion or, unless, in the case of the June 30, 2006 interest payment only, we have elected to terminate your right to convert the notes as provided below under Termination of Conversion Right and such conversion occurs within five days before June 30, 2006.

The initial conversion rate for the notes is 77.8743 shares of our common stock per $1,000 principal amount of notes (equivalent to a conversion price of $12.84 per share), subject to adjustment as described below. We will not issue fractional shares of common stock upon conversion of the notes. Instead, we will pay cash equal to the applicable fractional amount of the market price of our common stock on the business day before the conversion date. Except as described below, you will not receive any accrued interest or dividends upon conversion.

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To convert your note into common stock you must:

- complete and manually sign the conversion notice on the back of the note or a facsimile of the conversion notice and deliver this notice to the conversion agent;
- surrender the note to the conversion agent;
- if required, furnish appropriate endorsements and transfer documents;
- if required, pay all transfer or similar taxes; and
- if required, pay funds equal to interest payable on the next interest payment date.

The date on which you comply with these requirements is the conversion date under the indenture.

We will adjust the conversion rate proportionally if any of the following events occur:

(1) we issue common stock as a dividend or distribution on our common stock;

(2) we issue to all holders of common stock certain rights or warrants to purchase our common stock;

(3) we subdivide or combine our common stock;

(4) we distribute to all holders of our common stock, evidences of indebtedness, shares of any class of our capital stock, or assets, including securities but excluding:

- rights or warrants listed in (2) above;
- dividends or distributions listed in (1) above; and
- cash distributions listed in (5) below;

unless we reserve such securities for distribution to holders of notes upon the conversion of the notes;

(5) we distribute cash (excluding any dividend or distribution in connection with our liquidation, dissolution or winding up). If we declare such a cash dividend or distribution, the conversion rate will be increased to equal the number determined by

multiplying the conversion rate in effect immediately before the record date for such dividend or distribution by the following fraction:

$$\frac{\text{(Pre-Dividend Sale Price)}}{\text{(Pre-Dividend Sale Price} \quad \text{Dividend Adjustment Amount)}}$$

No adjustment to the conversion rate or your ability to convert will be made if we provide that you will participate in the cash dividend or distribution without conversion. If the denominator of the above fraction is less than $1.00 (including a negative amount) then in lieu of any adjustment under this clause (5), we will make adequate provision so that you will have the right to receive upon conversion, in addition to the shares of common stock issuable upon conversion, the amount of cash you would have received had you converted such notes on the record date for such cash dividend or distribution.

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Pre-Dividend Sale Price means the average of the last reported sale price of our common stock for the three consecutive trading days ending on the trading day immediately preceding the ex-dividend date for such dividend or distribution. Dividend Adjustment Amount means the full amount of the dividend or distribution to the extent payable in cash applicable to one share of common stock;

(6) we or one of our subsidiaries make a payment in respect of a tender offer or exchange offer for our common stock to the extent that the cash and value of any other consideration included in the payment per share of common stock exceeds the current market price per share of common stock on the trading day next succeeding the last date on which tenders or exchanges may be made pursuant to such tender or exchange offer; or

(7) someone other than us or one of our subsidiaries makes a payment in respect of a tender offer or exchange offer in which, as of the closing date of the offer, our board of directors is not recommending rejection of the offer. The adjustment referred to in this clause (7) will be made only if:

- the tender offer or exchange offer is for an amount that increases the offeror s ownership of common stock to more than 25% of the total shares of common stock outstanding; and

- the cash and value of any other consideration included in the payment per share of common stock exceeds the current market price per share of common stock on the business day next succeeding the last date on which tenders or exchanges may be made pursuant to the tender or exchange offer.

However, the adjustment referred to in clause (7) above will generally not be made if, as of the closing of the offer, the offering documents disclose a plan or an intention to cause us to engage in a consolidation or merger or a sale of all or substantially all of our assets.

To the extent that we have a shareholder rights plan in effect upon conversion of the notes into common stock, you will receive, in addition to the common stock, the rights under the rights plan whether or not the rights have separated from the common stock at the time of conversion, subject to limited exceptions.

In the event of:

- any reclassification of our common stock;

- a consolidation, merger or combination involving Kulicke & Soffa; or

- a sale or conveyance to another person or entity of all or substantially all of our property or assets;

in which holders of common stock would be entitled to receive stock, other securities, other property, assets or cash for their common stock, upon conversion of your notes you will be entitled to receive the same type of consideration which you would have been entitled to receive if you had converted the notes into our common stock immediately prior to any of these events.

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You may in certain situations be deemed to have received a distribution subject to United States federal income tax as a dividend in the event of any taxable distribution to holders of common stock or in certain other situations requiring a conversion rate adjustment. See Certain United States Federal Income Tax Considerations.

We may, from time to time, increase the conversion rate for a period of at least 20 days if our board of directors has made a determination that this increase would be in our best interests. We would give holders at least 15 days notice of any increase in the conversion rate. In addition, we may increase the conversion rate if our board of directors deems it advisable to avoid or diminish any income tax to holders of common stock resulting from any stock distribution. See Certain United States Federal Income Tax Considerations. In each case above, we will not increase the conversion rate of the notes without first obtaining shareholder approval if such approval is required by law or Nasdaq Marketplace rules.

Except as described above in this section, we will not adjust the conversion rate for any issuance of our common stock or convertible or exchangeable securities or rights to purchase our common stock or convertible or exchangeable securities.

Termination of Conversion Right

We may terminate your right to convert the notes at any time on or after June 30, 2006, if the closing price of our common stock has exceeded 140% of the conversion price then in effect for at least 20 trading days within a period of 30 consecutive trading days (a conversion termination trigger event). If we elect to terminate your right to convert your notes upon a conversion termination trigger event, we will, within five trading days of the date of the conversion termination trigger event, deliver to you a written notice of our decision to terminate your right to convert your notes (the conversion termination notice). After we deliver the conversion termination notice, you may convert your notes at any time on or before the 20th day following the date of the conversion termination notice (the conversion termination date). If you fail to convert your notes on or before the conversion termination date, your right to convert the notes will terminate, you will thereafter have no rights to receive shares of our common stock under the indenture and the conversion provisions of the indenture will no longer be in effect. In such an event, your notes will remain outstanding and you will continue to receive interest until maturity unless your notes are purchased.

Sinking Fund

The notes are not entitled to any sinking fund.

Fundamental Change

If a fundamental change of Kulicke & Soffa occurs at any time before the maturity of the notes, you may require us to purchase your notes, in whole or in part, on a purchase date that is 30 days after the date of our notice of the fundamental change. The notes will be purchasable in integral multiples of $1,000 principal amount.

We will purchase the notes for cash at a price equal to 100% of the principal amount to be purchased, plus accrued but unpaid interest, and liquidated damages, if any, to the date of purchase, plus a make-whole premium, payable in cash, under the circumstances described below. If the purchase date is an interest payment date, we will pay interest to the record holder on the relevant record date.

If a fundamental change occurs and at least 60% of the consideration for the common stock in the transaction or transactions constituting the fundamental change consists of cash, which we will refer to as a

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cash buy-out, we will pay a make-whole premium, in cash, to the holders of the notes in addition to the purchase price of the notes on the date of purchase. The make-whole premium will also be paid to those holders who convert their notes after receipt of a notice of a fundamental change (where such fundamental change constitutes a cash buy-out) and before the purchase date, in addition to the shares of common stock to be received upon conversion of the notes.

The make-whole premium per note will equal (a) the average of the closing trading prices of a note for the five trading days immediately prior to the public announcement date of the cash buy-out, less (b) the greater of (i) $1,000 or (ii) the product of (x) average closing prices of our common stock for the five trading days immediately prior to the public announcement date of the cash buy-out and (y) the applicable conversion rate; and will be payable in cash. The make-whole premium, if any, will not be less than zero.

The closing trading price, for purposes of calculating the make-whole premium, means the average of the secondary market bid quotations obtained by the bid solicitation agent for $1 million principal amount of notes at approximately 4 p.m., New York City time, for a determination date from three independent nationally recognized securities dealers we select; provided that if three such bids cannot reasonably be obtained by the bid solicitation agent, but two such bids are obtained, then the average of the two bids will be used, and if only one such bid can reasonably be obtained by the bid solicitation agent, that one bid will be used. If the bid solicitation agent cannot reasonably obtain at least one bid for the notes from a nationally recognized securities dealer, no make-whole premium will be paid.

The public announcement date, for purposes of calculating the make-whole premium, means the date of the public announcement of the closing of the transaction constituting the fundamental change.

We will mail to all record holders a notice of a fundamental change of Kulicke & Soffa within 10 days after it has occurred. We are also required to deliver to the trustee a copy of the fundamental change notice. If you elect to have your notes purchased, you must deliver to us or our designated agent, on or before the 30th day after the date of our fundamental change notice, your purchase notice and any notes to be purchased, duly endorsed for transfer. We will promptly pay the purchase price for notes surrendered for purchase following the purchase date.

A fundamental change of Kulicke & Soffa is any transaction or event (whether by means of an exchange offer, liquidation, tender offer, consolidation, merger, combination, reclassification, recapitalization or otherwise) in connection with which all or substantially all of our common stock is exchanged for, converted into, acquired for or constitutes solely the right to receive consideration which is not all or substantially all common stock that:

- is listed, or immediately after the transaction or event will be listed, on one or more of (1) a United States national securities exchange, (2) the London Stock Exchange, (3) the Tokyo Stock Exchange, or (4) the German Stock Exchange; or

- is approved, or immediately after the transaction or event will be approved, for quotation on the Nasdaq National Market or any similar United States system of automated dissemination of quotations of securities prices.

We will comply with any applicable provisions of Rule 13e-4 and any other tender offer rules under the Exchange Act in the event of a fundamental change.

These fundamental change purchase rights could discourage a potential acquiror of Kulicke & Soffa. However, this fundamental change purchase feature is not the result of management s knowledge of any specific effort to obtain control of Kulicke & Soffa by means of a merger, tender offer or solicitation, or part of a plan by management to adopt a series of anti-takeover provisions. The term fundamental change is limited to specified transactions and may not include other events that might adversely affect our financial condition or business operations. In addition, our obligation to offer to purchase the notes upon a fundamental change would not necessarily afford you protection in the event of a highly leveraged transaction, reorganization, merger or similar transaction involving Kulicke & Soffa.

We may be unable to purchase the notes in the event of a fundamental change. If a fundamental change were to occur, we may not have enough funds to pay the purchase price for all tendered notes. In addition, any future agreements relating to our indebtedness may expressly prohibit our purchase of the notes upon a fundamental change or may provide that a fundamental change constitutes an event of default under that agreement. If a fundamental change occurs at a time when we are prohibited from purchasing the notes, we could seek the consent of our lenders to purchase the notes or could attempt to refinance this debt. If we do not obtain a consent or refinance the debt, we could not purchase the notes. Our failure to purchase tendered notes would constitute an event of default under the indenture, which might constitute a default under the terms of our other indebtedness. In such circumstances, or if a fundamental change would constitute an event of default under our senior indebtedness, if any, the subordination provisions of the indenture would restrict payments to the holders of notes.

Subordination of the Notes

Payment on the notes is, to the extent provided in the indenture, subordinated in right of payment to the prior payment in full of all of our senior indebtedness. The notes also are structurally subordinated to all indebtedness and other liabilities, including trade payables and lease obligations, if any, of our subsidiaries.

As of September 30, 2004, we had senior indebtedness outstanding in the amount of approximately $14.3 million, and our subsidiaries had approximately $95.9 million of other liabilities outstanding, excluding inter-company liabilities. The notes rank equally with our 0.5% Convertible Subordinated Notes due 2008. Neither we nor our subsidiaries are prohibited under the indenture from incurring debt, including senior indebtedness. We may, from time to time, incur additional debt, including senior indebtedness. Our subsidiaries may also, from time to time, incur other additional debt and liabilities.

Upon any distribution of our assets upon any dissolution, winding up, liquidation or reorganization, the payment of the principal of, or premium, if any, interest, and liquidated damages, if any, on the notes will be subordinated in right of payment to the prior payment in full of all senior indebtedness in cash or other payment satisfactory to the holders of senior indebtedness. In the event of any acceleration of the notes because of an event of default, the holders of any outstanding senior indebtedness would be entitled to payment in full of all senior indebtedness obligations in cash or other payment satisfactory to the holders of senior indebtedness before the holders of the notes are entitled to receive any payment or distribution. We are required under the indenture to notify holders of senior indebtedness promptly if payment of the notes is accelerated because of an event of default.

We may not make any payment on the notes if:

- a default in the payment of designated senior indebtedness occurs and is continuing beyond any applicable period of grace (called a payment default); or

- a default other than a payment default on any designated senior indebtedness occurs and is continuing that permits holders of designated senior indebtedness to accelerate its maturity, or in the case of a lease, a default occurs and is continuing that permits the lessor either to terminate the lease or require us to make an irrevocable offer to terminate the lease following an event of default under the lease, and the trustee receives a notice of such default (called a payment blockage notice) from us or any other person permitted to give such notice under the indenture (called a non-payment default).

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We may resume payments and distributions on the notes:

- in case of a payment default, upon the date on which such default is cured or waived or ceases to exist; and
- in case of a non-payment default, upon the earlier of the date on which such nonpayment default is cured or waived or ceases to exist, or 179 days after the date on which the payment blockage notice is received, if the maturity of the designated senior indebtedness has not been accelerated, or in the case of any lease, 179 days after notice is received if we have not received notice that the lessor under such lease has exercised its right to terminate the lease or require us to make an irrevocable offer to terminate the lease following an event of default under the lease.

No new period of payment blockage may be commenced pursuant to a payment blockage notice unless 365 days have elapsed since the initial effectiveness of the immediately prior payment blockage notice. No nonpayment default that existed or was continuing on the date of delivery of any payment blockage notice may be the basis for any later payment blockage notice.

If the trustee or any holder of the notes receives any payment or distribution of our assets in contravention of the subordination provisions on the notes before all senior indebtedness is paid in full in cash or other payment satisfactory to holders of senior indebtedness, then such payment or distribution will be held in trust for the benefit of holders of senior indebtedness or their representatives to the extent necessary to make payment in full in cash or payment satisfactory to the holders of senior indebtedness of all unpaid senior indebtedness.

In the event of our bankruptcy, dissolution or reorganization, holders of senior indebtedness may receive more, ratably, and holders of the notes may receive less, ratably, than our other creditors. This subordination will not prevent the occurrence of any event of default under the indenture.

The notes are exclusively obligations of Kulicke & Soffa. Substantially all of our operations are conducted through our subsidiaries. As a result, our cash flow and our ability to service our debt, including the notes, are dependent upon the earnings of our subsidiaries. In addition, we are dependent on the distribution of earnings, loans or other payments by our subsidiaries to us.

Our subsidiaries are separate and distinct legal entities. Our subsidiaries have no obligation to pay any amounts due on the notes. Our subsidiaries are not required to provide us with funds for our payment obligations, whether by dividends, distributions, loans or other payments. In addition, any payment of dividends, distributions, loans or advances by our subsidiaries to us could be subject to statutory or contractual restrictions. Payments to us by our subsidiaries will also be contingent upon our subsidiaries earnings and business considerations.

Our right to receive any assets of any of our subsidiaries upon their liquidation or reorganization, and therefore the right of the holders to participate in those assets, will be effectively subordinated to the claims of that subsidiary s creditors, including trade creditors. In addition, even if we were a creditor to any of our subsidiaries, our rights as a creditor would be subordinate to any security interest in the assets of our subsidiaries and any indebtedness of our subsidiaries senior to that held by us.

We are obligated to pay reasonable compensation to the trustee and to indemnify the trustee against certain losses, liabilities or expenses incurred by the trustee in connection with its duties relating to the notes. The trustee s claims for these payments will generally be senior to those of noteholders in respect of all funds collected or held by the trustee.

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Certain Definitions

designated senior indebtedness means any senior indebtedness that expressly provides that such senior indebtedness will be designated senior indebtedness for purposes of the indenture. Any agreement for designated senior indebtedness may place limitations and conditions on the right of the creditor to exercise the rights of designated senior indebtedness.

indebtedness means:

(1) all indebtedness, obligations and other liabilities for borrowed money, including overdrafts, foreign exchange contracts, currency exchange agreements, interest rate protection agreements, and any loans or advances from banks, or evidenced by bonds, debentures, notes, or similar instruments, other than any account payable or other accrued current liability or obligation incurred in the ordinary course of business in connection with the obtaining of materials or services;

(2) obligations with respect to letters of credit, bank guarantees and bankers acceptances;

(3) obligations in respect of leases required in conformity with generally accepted accounting principles to be accounted for as capitalized lease obligations on our balance sheet;

(4) all obligations and other liabilities under any lease or related document in connection with the lease of real property that provides that we are contractually obligated to purchase or cause a third party to purchase the leased property, and thereby guarantee a minimum residual value of the leased property to the lessor and our obligations under the lease or related document to purchase or to cause a third party to purchase the leased property;

(5) all obligations with respect to an interest rate or other swap, cap or collar agreement or foreign currency hedge, exchange or purchase agreement;

(6) all direct or indirect guaranties and similar agreements in respect of, and any obligations or liabilities to purchase, acquire or otherwise assure a creditor against loss in respect of, indebtedness, obligations or liabilities of others of the type described in (1) through (5) above;

(7) any obligations described in (1) through (6) above secured by any mortgage, pledge, lien or other encumbrance existing on property which is owned or held by us; and

(8) any amendments or modifications to (1) through (7) above.

senior indebtedness means the principal, premium, if any, interest, including any interest accruing after bankruptcy, and rent or termination payment on or other amounts due on our current or future indebtedness, whether created, incurred, assumed, guaranteed or in effect guaranteed by us, including any deferrals, renewals, extensions, refundings, amendments, modifications or supplements to the above. However, senior indebtedness does not include:

- indebtedness that expressly provides that it is not senior in right of payment to the notes or expressly provides that it is on parity with or junior to the notes;

- our indebtedness to any of our majority-owned subsidiaries; and

- the 0.5% Convertible Subordinated Notes due 2008 and the notes.

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Events of Default; Notice and Waiver

The following are events of default under the indenture:

- we fail to pay principal or premium, if any, when due upon maturity or otherwise on the notes, whether or not the payment is prohibited by the subordination provisions of the indenture;
- we fail to pay any interest and liquidated damages, if any, on the notes, when due whether or not the payment is prohibited by the subordination provisions of the indenture and such failure continues for a period of 30 days;
- we fail to perform or observe any of the other covenants in the indenture for 60 days after notice; or
- certain events involving our bankruptcy, insolvency or reorganization.

The trustee may withhold notice to the holders of the notes of any default, except defaults in payment of principal, premium, interest, or liquidated damages, if any, on the notes. However, the trustee must consider it to be in the interest of the holders of the notes to withhold this notice.

If an event of default occurs and continues, the trustee or the holders of at least 25% in principal amount of the outstanding notes may declare the principal, premium, if any, accrued interest, and liquidated damages, if any, on the outstanding notes to be immediately due and payable. In case of certain events of bankruptcy or insolvency involving us, the principal, premium, if any, accrued interest and liquidated damages, if any, on the notes will automatically become due and payable. However, if we cure all defaults, except the nonpayment of principal, premium, if any, interest or liquidated damages, if any, that became due as a result of the acceleration, and meet certain other conditions, with certain exceptions, this declaration may be cancelled and the holder of a majority of the principal amount of outstanding notes may waive these past defaults.

Payments of principal, premium, if any, interest, or liquidated damages, if any, on the notes that are not made when due will accrue interest at the annual rate of 0.5% from the required payment date.

The holders of a majority of outstanding notes have the right to direct the time, method and place of any proceedings for any remedy available to the trustee, subject to limitations specified in the indenture.

No holder of notes may pursue any remedy under the indenture, except in the case of a default in the payment of principal, premium, or interest on the notes, unless:

- the holder has given the trustee written notice of an event of default;

the holders of at least 25% in principal amount of outstanding notes make a written request, and offer reasonable indemnity, to the trustee to pursue the remedy;

the trustee does not receive an inconsistent direction from the holders of a majority in principal amount of the notes; and

the trustee fails to comply with the request within 60 days after receipt.

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Consolidation, Merger and Sale of Assets

We may, without your consent, consolidate with or merge into any other person or sell, convey or lease all or substantially all of our property to any other person if such person:

- is authorized to acquire and operate the same;
- is organized under the laws of the United States of America, any state thereof or the District of Columbia, or, if not organized in any such jurisdiction, if (1) such person agrees to be subject to the service of process laws of the State of New York and (2) under the laws of such person s jurisdiction of organization, payments on the notes (in cash or in shares of common stock upon conversion) would not be subject to withholding tax; and
- expressly assumes our obligations under the indenture and the notes by means of a supplemental indenture satisfactory in form to the trustee.

Under any consolidation or merger or any sale, conveyance or lease of all or substantially all of our property as described in the preceding paragraph, the successor company will be our successor and will succeed to, and be substituted for, and may exercise every right and power of, Kulicke & Soffa under the indenture. If the predecessor is still in existence after the transaction, it will be released from its obligations under the indenture and the notes, except in the case of a lease of all or substantially all of our property.

Modification and Waiver

The consent of the holders of a majority in principal amount of the outstanding notes is required to modify or amend the indenture. However, a modification or amendment requires the consent of the holder of each affected note if it would:

- extend the fixed maturity of any note;
- reduce the rate or extend the time for payment of interest of any note;
- reduce the principal amount or premium of any note;
- reduce any amount payable upon purchase of any note;
- adversely change our obligation to purchase any note upon a fundamental change;
- impair the right of a holder to institute suit for payment on any note;

change the currency in which any note is payable;

impair the right of a holder to convert any note; or

adversely modify the subordination provisions of the indenture.

The vote of the holders of all outstanding notes is required to modify certain of the provisions of the indenture relating to modification or waiver of provisions of the indenture or to reduce the percentage of notes required for a quorum or for consent to any modification of the indenture.

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We are permitted to modify certain provisions of the indenture without the consent of the holders of the notes.

Information Concerning the Trustee

We have appointed J.P. Morgan Trust Company, National Association, the trustee under the indenture, as paying agent, conversion agent, note registrar and custodian for the notes. The trustee or its affiliates may provide banking and other services to us in the ordinary course of their business.

The indenture contains certain limitations on the rights of the trustee, as long as it or any of its affiliates is then our creditor, to obtain payment of claims in certain cases or to realize on certain property received on any claim as security or otherwise. The trustee and its affiliates are permitted to engage in other transactions with us. However, if the trustee has a conflicting interest within the meaning of the Trust Indenture Act, the trustee must eliminate such conflict or resign.

DESCRIPTION OF CAPITAL STOCK

Our authorized capital stock consists of 200 million shares of common stock, without par value, and 5 million shares of preferred stock, without par value. As of December 10, 2004, there were 51,340,444 shares of common stock and no shares of preferred stock outstanding. The following description of our capital stock is qualified in its entirety by reference to our articles of incorporation and bylaws, each as amended, and the description of our common stock contained in our registration statement on Form 8-A12G/A filed with the SEC.

Common Stock

The holders of our common stock are entitled to one vote per share for each share held of record on all matters submitted to a vote of stockholders. Subject to preferential rights with respect to any series of preferred stock that may be issued, holders of our common stock are entitled to receive ratably such dividends as may be declared by the board of directors on the common stock out of funds legally available therefor and, in the event of a liquidation, dissolution or winding-up of our affairs, are entitled to share equally and ratably in all of our remaining assets and funds. In the election of directors, the holders of our common stock have cumulative rights, meaning that they may multiply the number of votes the stockholder is entitled to cast by the total number of directors to be elected at a meeting of stockholders and cast the whole number of votes for one candidate or distribute them among some or all candidates. The holders of the common stock have no preemptive rights or rights to convert shares of our common stock into any other securities and are not subject to future calls or assessments by us. All outstanding shares of our common stock are fully paid and nonassessable.

Preferred Stock

By resolution of the board of directors and without any further vote or action by the stockholders, we may issue preferred stock in one or more series and fix from time to time the number of shares to be included in each such series, and the designations, preferences, qualifications, limitations, restrictions and special or relative rights of the shares of each such series. Our ability to issue preferred stock, while providing flexibility in connection with possible acquisitions and other corporate purposes, could adversely affect the voting power of the holders of the common stock and could have the effect of making it more difficult for a person to acquire, or of discouraging a person from attempting to acquire, control of us. We have no present plans to issue any of the preferred stock.

Certain Charter Provisions

Some provisions of our articles of incorporation and bylaws and Pennsylvania law may discourage certain transactions involving a fundamental change of Kulicke & Soffa. For example, our articles of incorporation and bylaws contain provisions that (1) classify the board of directors into four classes, with one class being elected each year, (2) permit the board to issue blank check preferred stock without stockholder approval, as discussed above, and (3) prohibit us from engaging in certain business combinations with a holder of 20% or more of our voting securities without super-majority board or stockholder approval. Further, under the Pennsylvania Business Corporation Law, because our bylaws provide for a classified board of directors, stockholders may only remove directors for cause. These provisions and certain other provisions of the Pennsylvania Business Corporation Law could have the effect of delaying, deferring or preventing a fundamental change of Kulicke & Soffa and may adversely affect the voting and other rights of holders of common stock.

Transfer Agent and Registrar

American Stock Transfer and Trust Company is the transfer agent and registrar for our common stock, with offices in New York, New York.

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DESCRIPTION OF CERTAIN OTHER INDEBTEDNESS

The following summarizes the material provisions of certain of our indebtedness in addition to the indebtedness represented by the notes offered by this prospectus. This summary is not a complete description of such indebtedness. Copies of the indenture for the 0.5% Convertible Subordinated Notes due 2008 are available upon request, and the description of such notes set forth below is qualified in its entirety by reference to the indenture.

We used the majority of the net proceeds of the notes to repurchase or redeem all of our outstanding 5 $^{1}/4$% Convertible Subordinated Notes due 2006.

0.5% Convertible Subordinated Notes Due 2008

In November 2003, we issued $205 million aggregate principal amount of convertible subordinated notes due on November 30, 2008. The 0.5% Convertible Subordinated Notes due 2008 bear interest at the annual rate of 0.5% on the principal amount, payable semi-annually in cash on May 30 and November 30 of each year.

Conversion. The 0.5% Convertible Subordinated Notes Due 2008 may be converted into our common stock at any time, subject to prior redemption, at a conversion rate of 49.1884 shares per $1,000 principal amount of notes, subject to adjustment upon the occurrence of certain events affecting our common stock, including if we declare and pay a dividend on our common stock.

Subordination. The 0.5% Convertible Subordinated Notes due 2008 are contractually subordinated to all of our existing and future senior indebtedness and are structurally subordinated to all indebtedness of our subsidiaries. The 0.5% Convertible Subordinated Notes rank equally with the 1% Convertible Subordinated Notes due 2010.

Purchase at Option of Holder (Fundamental Change). The holders of the 0.5% Convertible Subordinated Notes due 2008 may require us to purchase the notes for cash, in whole or in part, on a purchase date that is 30 days after the date of a notice of fundamental change (as defined below). Any such purchase is required to be at a price equal to 100% of the principal amount of notes to be purchased, plus accrued interest to, but excluding, the purchase date.

A fundamental change is any transaction or event in connection with which all or substantially all of our common stock is exchanged for, converted into, acquired for or constitutes solely the right to receive consideration (whether by means of an exchange offer, liquidation, tender offer, consolidation, merger, combination, reclassification, recapitalization or otherwise) which is not all or substantially all common stock that is or that will be immediately after the transaction or event:

- listed on one or more of (1) a United States national securities exchange, (2) the London Stock Exchange, (3) the Tokyo Stock Exchange, or (4) the German Stock Exchange; or approved for quotation on the Nasdaq National Market or any similar United States system of automated dissemination of quotations of securities prices.

Events of Default. The indenture for the 0.5% Convertible Subordinated Notes due 2008 contains customary events of default, including failure to pay amounts due, failure to observe covenants and events involving our bankruptcy, insolvency or reorganization.

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CERTAIN UNITED STATES FEDERAL INCOME TAX CONSIDERATIONS

The following is a summary of certain U.S. federal income tax considerations relating to the purchase, ownership and disposition of the notes and common stock into which notes may be converted, but does not purport to be a complete analysis of all the potential tax considerations relating thereto. This summary is based on laws, regulations, rulings and decisions now in effect, all of which are subject to change or differing interpretation, possibly with retroactive effect. We have not sought any ruling from the Internal Revenue Service (the IRS) with respect to the statements made and the conclusions reached in the following summary, and there can be no assurance that the IRS or a court will agree with those statements and conclusions. This summary does not discuss the effect of the federal estate or gift tax laws (except as set forth below with respect to Non-U.S. Holders), or the tax laws of any applicable foreign, state, local or other jurisdiction.

Except as specifically discussed below with regard to Non-U.S. Holders (as defined below), this summary applies only to beneficial owners that will hold notes and common stock into which notes may be converted as capital assets (within the meaning of section 1221 of the Internal Revenue Code of 1986, as amended (the Code)) and who, for U.S. federal income tax purposes, are (1) individual citizens or residents of the U.S., (2) corporations or other entities created or organized in or under the laws of the U.S. or of any political subdivision thereof, (3) estates, the income of which is subject to U.S. federal income taxation regardless of the source of such income or (4) trusts subject to the primary supervision of a U.S. court and the control of one or more U.S. persons and certain trusts in existence on August 20, 1996 that elect to be treated as United States persons, as such term is defined in the Code (U.S. Holders). Persons other than U.S. Holders (Non-U.S. Holders) are subject to special U.S. federal income tax considerations, some of which are discussed below.

This discussion does not address all the tax considerations applicable to an investor s particular circumstances or to investors that may be subject to special tax rules, such as banks or other financial institutions, holders subject to the alternative minimum tax, tax-exempt organizations, insurance companies, foreign persons or entities (except to the extent specifically set forth below), dealers in securities or currencies, partnerships or other entities classified as partnerships for U.S. federal income tax purposes, U.S. Holders whose financial currency is not the U.S. dollar, persons that will hold notes as a position in a hedging transaction, straddle or conversion transaction for tax purposes or persons deemed to sell notes or common stock under the constructive sale provisions of the Code. This discussion assumes that the IRS will respect the classification of the notes as indebtedness for U.S. federal income tax purposes. If a partnership (including any entity classified as a partnership for U.S. federal income tax purposes) is a beneficial owner of a note or the stock into which the notes may be converted, the treatment of a partner in the partnership will generally depend upon the status of the partner and the activities of the partnership. A beneficial owner of notes or the common stock into which notes may be converted that is a partnership, and partners in such partnership, should consult their tax advisors about the U.S. federal income tax consequences of the acquisition, ownership and disposition of the notes and the common stock into which the notes may be converted.

THE FOLLOWING DISCUSSION OF CERTAIN U.S. FEDERAL INCOME TAX CONSIDERATIONS IS FOR GENERAL INFORMATION ONLY AND IS NOT TAX ADVICE. ACCORDINGLY, INVESTORS CONSIDERING THE PURCHASE OF NOTES SHOULD CONSULT THEIR OWN TAX ADVISORS WITH RESPECT TO THE APPLICATION OF THE UNITED STATES FEDERAL INCOME TAX LAWS TO THEIR PARTICULAR SITUATIONS AS WELL AS ANY TAX CONSEQUENCES ARISING UNDER THE FEDERAL ESTATE OR GIFT TAX LAWS OR UNDER THE LAWS OF ANY STATE, LOCAL OR FOREIGN TAXING JURISDICTION OR UNDER ANY APPLICABLE TAX TREATY.

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U.S. Holders

Taxation of Interest

Interest paid on the notes will be included in your income as ordinary income at the time it is treated as received or accrued, in accordance with your regular method of accounting for U.S. federal income tax purposes. Under Treasury Regulations, the possibility of an additional payment under a note may be disregarded for purposes of determining the amount of interest or original issue discount income to be recognized by you in respect of a note (or the timing of such recognition) if the likelihood of the payment, as of the date the notes are issued, is remote. You may require us to redeem any and all of your notes in the event of a fundamental change. We intend to take the position that a fundamental change is remote under the Treasury Regulations, and likewise do not intend to treat the possibility of a fundamental change as affecting the yield to maturity of any note. In the event a fundamental change occurs, the amount and timing of income that must be recognized by you will be affected. There can be no assurance that the IRS will agree with this position.

Original Issue Discount

Because the stated principal amount of the notes exceeds their issue price by more than a *de minimis* amount, there is original issue discount with respect to the notes and you will be required for federal income tax purposes to accrue this original issue discount into income over time, and in advance of the receipt of cash with respect thereto, using a constant yield method under the provisions of the Internal Revenue Code and Treasury regulations relating to original issue discount.

Acquisition Premium

If you purchase a note for an amount that is less than or equal to the stated principal amount of the note but in excess of the note s revised issue price (as defined below), you generally will be permitted to reduce the daily portion of original issue discount includible in your income by an amount equal to the product of (1) the amount of the daily portion of original issue discount and (2) a fraction, the numerator of which is the excess of your adjusted tax basis in the note immediately after your purchase over the revised issue price of the note, and the denominator of which is the aggregate amount of original issue discount includible in income with respect to the note after the date on which the note is purchased. As an alternative to reducing the amount of original issue discount otherwise includible in income by this fraction, you may elect to compute your original issue discount accruals by treating your purchase as if it were a purchase at original issuance and applying the constant yield method to the deemed original issue discount amount that would result.

Amortizable Bond Premium

If you purchase a note at a premium over its stated principal amount, plus accrued interest, such excess will constitute amortizable bond premium. In such case, you generally will not be required to include any original issue discount in income. You may elect to amortize that premium with a corresponding decrease in adjusted tax basis from the purchase date to the note s maturity date under a constant yield method. Amortizable bond premium will not include any premium attributable to a note s conversion feature. Amortizable bond premium is treated as an offset to interest income on a note and not as a separate deduction. The amount of amortizable bond premium that you may deduct in any year is limited to the amount by which your total interest inclusions on the note in prior years exceed the total amount treated as a amortizable bond premium deduction in prior years. If any of the excess amortizable bond premium is not deductible, that amount is carried forward to the next taxable year. The election to amortize amortizable bond premium on a constant yield method applies to all debt obligations held or acquired by you on or after the first day of the first taxable year to which the election applies and cannot be revoked without the consent of the IRS.

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Market Discount

If you acquire a note at a cost that is less than the revised issue price, the amount of such difference is treated as market discount for federal income tax purposes, unless such difference is less than .25% multiplied by the stated principal amount of the notes multiplied by the number of complete years until maturity (from the date of acquisition). The revised issue price of a note, as of any date, will equal the sum of its issue price plus the amount of any OID that has accrued on the note up until that date.

If you purchase a note at a market discount, you are required to treat any gain on the sale, redemption or other disposition of a note as ordinary income to the extent of the accrued market discount that has not been previously included in income. If you dispose of a note with market discount in certain otherwise nontaxable transactions, you may be required to include accrued market discount as ordinary income as if you had sold the note at its then fair market value. However, if you convert a note with market discount into shares of common stock, the amount of accrued market discount not previously included in income with respect to the converted note through the date of conversion will be treated as ordinary income when you dispose of the common stock to the extent of any gain on that disposition.

In general, the amount of market discount that has accrued is determined on a ratable basis. You may, however, elect to determine the amount of accrued market discount on a constant yield to maturity basis. This election is made on a note-by-note basis and is irrevocable. With respect to a note with market discount, you may not be allowed to deduct immediately a portion of the interest expense on any indebtedness incurred or maintained to purchase or to carry the note. You may elect to include market discount in income currently as it accrues, in which case the interest deferral rules set forth in the preceding sentence will not apply. This election will apply to all debt instruments that you acquire on or after the first day of the first taxable year to which the election applies and is irrevocable without the consent of the IRS.

Election to Treat All Interest as Original Issue Discount

You may elect to include in gross income all interest that accrues on a note, including any stated interest, original issue discount and market discount (as adjusted by amortizable bond premium and acquisition premium). Such an election for a note may be revoked only with the permission of the IRS, and you should consult your tax advisor before making such election.

Sale or Redemption of the Notes

Upon the sale or redemption of a note, you generally will recognize capital gain or loss (except with respect to market discount as described below) equal to the difference between (1) the amount of cash proceeds and the fair market value of any property received on the sale or redemption (except to the extent such amount is attributable to accrued interest income not previously included in income, which will be taxable as ordinary income, or is attributable to accrued interest that was previously included in income, which amount may be received without generating further income) and (2) your adjusted tax basis in the note. Your adjusted tax basis in a note generally will equal the cost of the note increased by the net amount of any original issue discount included in your income through the date of disposition, (and, if you have elected to include market discount in income, the amount of any such market discount included in your income as of the date of disposition), and decreased by any amortizable bond premium amounts deducted by you. Any capital gain or loss will be long-term capital gain or loss if your holding period in the note is more than one year at the time of sale or redemption. Long-term capital gains recognized by certain noncorporate U.S. Holders, including individuals, will generally be subject to a maximum rate of tax of 15%. The deductibility of capital losses is subject to limitations.

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Conversion of the Notes

You generally will not recognize any income, gain or loss upon conversion of a note into common stock, except with respect to cash received (1) in lieu of a fractional share of common stock (2) with respect to cash distributions in which a holder of a note was entitled to participate without converting, as described under the caption Description of Notes Conversion of the Notes or (3) with respect to payment of any make-whole premium, as described under the caption Description of Notes Fundamental Change . Your tax basis in the common stock received on conversion of a note will be the same as your adjusted tax basis in the note at the time of conversion (reduced by any basis allocable to a fractional share interest), and your holding period for the common stock received on conversion will generally include the holding period of the note converted.

Cash received in lieu of a fractional share of common stock upon conversion generally will be treated as a payment in exchange for the fractional share of common stock. Accordingly, the receipt of cash in lieu of a fractional share of common stock generally will result in capital gain or loss (measured by the difference between the cash received for the fractional share and your adjusted tax basis in the fractional share).

If we pay a cash distribution on our common stock, we may elect to make cash payments upon conversion to the holders of the notes in lieu of an adjustment to the conversion price, as described under the caption Description of Notes Conversion of the Notes. In addition, we may be required to pay a make-whole premium upon conversion as described under the caption Description of Notes Fundamental Change . In these events, the receipt of these amounts will be treated as interest income for United States federal income tax purposes.

Distributions

Distributions, if any, made on the common stock after a conversion generally will be included in your income as dividend income to the extent of our current or accumulated earnings and profits. A corporate U.S. Holder generally will be entitled to a dividends-received deduction. For a noncorporate U.S. Holder, dividends generally will be subject to tax at the reduced rate applicable to long-term capital gains. You will be eligible for this reduced rate, however, only if you hold the common stock for more than 60 days during the 121-day period beginning 60 days before the ex-dividend date. Distributions in excess of our current and accumulated earnings and profits will be treated as a return of capital to the extent of your basis in the common stock and thereafter as capital gain.

Holders of convertible debt instruments such as the notes may, in certain circumstances, be deemed to have received distributions of stock if the conversion price is adjusted. Adjustments to the conversion price made pursuant to a bona fide reasonable adjustment formula which has the effect of preventing the dilution of the interest of the holders of the debt instruments, however, will generally not be considered to result in a constructive distribution of stock. Certain of the possible adjustments provided in the notes (including, without limitation, adjustments in respect of taxable distributions to our stockholders) will not qualify as being pursuant to a bona fide reasonable adjustment formula. If such adjustments are made, you will be deemed to have received constructive distributions taxable as dividends to the extent of our current and accumulated earnings and profits even though you have not received any cash or property as a result of the adjustments. In certain circumstances, the failure to provide for an adjustment may result in taxable dividend income to you of common stock.

Sale of Common Stock

Upon the sale of common stock, you generally will recognize capital gain or loss equal to the difference between (1) the amount of cash and the fair market value of any property received upon the sale or exchange and (2) your adjusted tax basis in the common stock. This capital gain or loss will be long-term capital gain or loss if your holding period in the common stock is more than one year at the time of the sale. Long-term capital gains recognized by certain noncorporate U.S. Holders, including individuals, generally will be subject to a maximum rate of federal income tax of 15%. The deductibility of capital losses is subject to limitations.

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Special Tax Rules Applicable to Non-U.S. Holders

In general, subject to the discussion below concerning backup withholding, if you are a Non-U.S. Holder:

(a) payments of principal or interest (including payments attributable to accrued original issue discount) on the notes by us or any paying agent to you will not be subject to U.S. withholding tax, provided that, in the case of interest (including payments attributable to accrued original issue discount), (1) you do not own, actually or constructively, 10% or more of the total combined voting power of all of our classes of stock entitled to vote, within the meaning of section 871(h)(3) of the Code, (2) you are not a controlled foreign corporation with respect to which we are a related person within the meaning of Section 954(d)(3) of the Code, (3) you are not a bank receiving interest described in section 881(c)(3)(A) of the Code, and (4) the certification requirements under section 871(h) or section 881(c) of the Code and Treasury Regulations thereunder (discussed below under Backup Withholding and Information Reporting) are satisfied;

(b) you will not be subject to U.S. federal income tax on gains realized on a sale, exchange, retirement or other disposition of the note or common stock unless (1) you are an individual who is present in the U.S. for 183 days or more in the taxable year of sale or other disposition, and certain conditions are met, (2) such gain is effectively connected with your conduct of a trade or business in the U.S. and, if certain U.S. income tax treaties apply, is attributable to a U.S. permanent establishment maintained by you, (3) you are subject to Code provisions applicable to certain U.S. expatriates, or (4) in the case of common stock held by a person who holds more than 5% of such stock, we are or have been, at any time within the shorter of the five-year period preceding such sale or other disposition or the period you held the common stock, a U.S. real property holding corporation (a USRPHC) for U.S. federal income tax purposes. We do not believe that we currently are a USRPHC or that we will become one in the future; and

(c) if you receive interest on the notes (including payments attributable to accrued original issue discount) not excluded from U.S. withholding tax as described in (a) above and dividends on our common stock upon conversion generally will be subject to U.S. withholding tax at a 30% rate, except where you provide a properly executed IRS Form W-8BEN, including a U.S. taxpayer identification number claiming a reduction of or an exemption from withholding under an applicable tax treaty. Special certification procedures apply to payments through qualified intermediaries. If you are eligible for a reduced rate of withholding tax pursuant to an income tax treaty, you may obtain a refund of amounts withheld at a higher rate by filing an appropriate claim for refund with the IRS.

If you are engaged in a trade or business in the U.S. and if interest on the note (including original issue discount), dividends on the common stock, or gain realized on the sale, redemption or other disposition of the note or common stock is effectively connected with the conduct of that trade or business (and, if certain tax treaties apply, is attributable to a U.S. permanent establishment maintained by you in the U.S.), you, although exempt from U.S. withholding tax (provided that the certification requirements discussed in the next sentence are met), will generally be subject to U.S. federal income tax on such interest (including original issue discount), dividends or gain on a net income basis in the same manner as if you were a U.S. Holder. You will be required to provide us with a properly executed IRS Form W-8ECI or successor form in order to claim an exemption from withholding tax. In addition, if you are a foreign corporation, you may be subject to a branch profits tax equal to 30% (or such lower rate provided by an applicable treaty) of its effectively connected earnings and profits for the taxable year, subject to certain adjustments.

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U.S. Federal Estate Tax

A note held by an individual who at the time of death is not a citizen or resident of the U.S. (as specially defined for U.S. federal estate tax purposes) will not be subject to U.S. federal estate tax if the individual did not actually or constructively own 10% or more of the total combined voting power of all of our classes of stock and, at the time of the individual s death, payments with respect to the note would not have been effectively connected with the conduct by the individual of a trade or business in the U.S. common stock held by an individual at death will be included in the individual s gross taxable estate for U.S. federal estate tax purposes, regardless of his citizenship or residence, unless an applicable estate tax treaty otherwise applies.

Backup Withholding and Information Reporting

Information returns will be filed with the IRS in connection with interest (including payments attributable to original issue discount) and dividend payments, as well as, in some cases, proceeds from the sale, redemption or other disposition of notes or common stock. These information returns may be made available to the governments of the jurisdictions in which Non-U.S. Holders are subject to tax pursuant to the terms of income tax treaties between the United States and such jurisdictions. You may be subject to backup withholding tax on these payments unless you comply with applicable certification procedures. In the case of a U.S. Holder, the certification may be made by providing a properly executed IRS Form W-9 or substitute Form W-9. In the case of a Non-U.S. Holder, the certification, generally, may be made by providing a properly executed Form W-8BEN or W-8ECI or by complying with special certification procedures applicable to payments through qualified intermediaries. Interest payments on our notes (including payments attributable to original issue discount), and dividends on our common stock, that are paid to Non-U.S. Holders subject to U.S. withholding tax, as described above, generally will be exempt from U.S. backup withholding tax but will be subject to certain information reporting.

The amount of any backup withholding from a payment to you will be allowed as a credit against your U.S. federal income tax liability and may entitle you to a refund provided that the required information is furnished to the IRS.

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PLAN OF DISTRIBUTION

We have registered the notes and the underlying common stock to allow the selling securityholders and their successors, including their assignees, transferees, pledgees and donees and their successors, to sell these securities to the public from time to time after the date of this prospectus. The selling securityholders may sell the securities directly or through underwriters, broker-dealers or agents. If the selling securityholders sell the securities through underwriters or broker-dealers, the selling securityholders will be responsible for underwriting discounts or commissions or agents commissions. We have agreed to pay all of the expenses incidental to the registration, offering and sale of the securities to the public other than commissions, fees and discounts of underwriters, brokers, dealers and agents.

The total proceeds to the selling securityholders from selling the securities will be the purchase price of the securities, less any discounts and commissions paid by the selling securityholders. We will not receive any of the proceeds from the sale of the securities offered by this prospectus.

The SEC may deem the selling securityholders and any broker-dealers or agents who participate in the distribution of the securities to be underwriters within the meaning of Section 2(11) of the Securities Act. As a result, the SEC may deem any profits the selling securityholders make by selling the securities and any discounts, commissions or concessions received by any broker-dealers or agents to be underwriting discounts and commissions under the Securities Act. Selling securityholders who are underwriters within the meaning of Section 2(11) of the Securities Act will be subject to the prospectus delivery requirements of the Securities Act. Selling securityholders may also be subject to liabilities under the securities laws, including Sections 11, 12 and 17 of the Securities Act and Rule 10b-5 under the Exchange Act. To our knowledge, there are currently no plans, arrangements or understandings between any selling securityholders and any underwriter, broker-dealer or agent regarding the sale of the securities.

The selling securityholders and any other person who participates in distributing the securities will be subject to the Exchange Act. The Exchange Act rules include Regulation M (or any successor rules or regulations), which may limit the timing of purchases and sales of any of the securities by the selling securityholders and any other person. In addition, Regulation M may restrict the ability of any person engaged in the distribution of the securities to engage in market-making activities with respect to the particular securities being distributed for a period of up to five business days before beginning to distribute the securities. This may affect the securities marketability and the ability of any person or entity to engage in market-making activities with respect to the securities.

The selling securityholders may sell the securities in one or more transactions at:

- fixed prices;
- prevailing market prices at the time of sale;
- varying prices determined at the time of sale; or
- negotiated prices.

These sales may be effected in transactions:

on any national securities exchange or quotation service on which the securities are listed or quoted at the time of the sale, including the Nasdaq National Market in the case of the common stock;

in the over-the-counter market;

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- in transactions other than transactions on national securities exchanges, quotation services or in the over-the-counter market; or

- through the writing of options.

These transactions may include block transactions or crosses. Crosses are transactions in which the same broker acts as an agent on both sides of the transaction.

In connection with sales of the securities or otherwise, any selling securityholder may:

- Enter into hedging transactions with broker-dealers, who may in turn engage in short sales of the securities in the course of hedging the positions they assume;

- sell the securities short and deliver the securities to close out their short positions; or

- loan or pledge the securities to broker-dealers, who may in turn sell the securities.

We cannot assure you that any selling securityholder will sell any or all of the securities using this prospectus. In addition, any securities covered by this prospectus that qualify for sale under Rule 144 or Rule 144A of the Securities Act may be sold under Rule 144 or Rule 144A rather than under this prospectus. The selling securityholders also may transfer, devise or gift the securities by other means not described in this prospectus.

To comply with the securities laws of some states, if applicable, the selling securityholders may only sell the securities in these jurisdictions through registered or licensed brokers or dealers.

Our common stock trades on the Nasdaq National Market under the symbol KLIC. The notes are eligible for trading in The PORTAL[SM] Market of the National Association of Securities Dealers, Inc. We do not intend to apply for listing of the notes on any securities exchange or for quotation through Nasdaq. Accordingly, we cannot assure you that selling securityholders will be able to sell the notes or that any trading market for the notes will develop. See Risk Factors In certain circumstances this registration statement may not be used to resell the notes and the common stock issuable upon their conversion; there is no prior public market for the notes, if an active trading market does not develop for the notes you may not be able to resell them.

With respect to a particular offering of the securities, to the extent required, we will file an accompanying prospectus supplement or, if appropriate, a post-effective amendment to the registration statement of which this prospectus is a part, disclosing the following information:

- the specific notes or common stock to be offered and sold;

- the names of the selling securityholders;

the respective purchase prices and public offering prices and other material terms of the offering;

the names of any participating agents, broker-dealers or underwriters; and

any applicable commissions, discounts, concessions and other items constituting compensation from the selling securityholders.

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The registration rights agreement pursuant to which the registration statement was filed of which this prospectus forms a part provides that we and the selling securityholders will indemnify each other and each other s directors, officers and controlling persons against specified liabilities, including liabilities under the Securities Act, or that we will be entitled to contribution from each other in connection with these liabilities.

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LEGAL MATTERS

Drinker Biddle & Reath LLP, Philadelphia, Pennsylvania has provided us with an opinion as to the validity of the securities offered by this prospectus.

EXPERTS

The consolidated financial statements as of September 30, 2003 and 2004 and for each of the three years in the period ended September 30, 2004, included in this prospectus, have been so included in reliance on the report of PricewaterhouseCoopers, LLP, an independent registered public accounting firm, given on the authority of said firm as experts in accounting and auditing.

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WHERE YOU CAN FIND MORE INFORMATION

We have filed with the SEC a registration statement (including the exhibits, schedules and amendments to the registration statement) under the Securities Act for the notes and the underlying common stock offered by this prospectus. This prospectus does not contain all of the information set forth in the registration statement, portions of which are omitted as permitted by the rules and regulations of the SEC. For further information pertaining to us, the notes and the underlying common stock offered by this prospectus, please refer to the registration statement. Statements contained in this prospectus as to the contents of any contract, agreement or other document referred to, are not necessarily complete and, where the contract, agreement or other document is an exhibit to the registration statement, each statement is qualified in all respects by the provisions of the exhibit, to which reference is now made.

We file reports, proxy statements, and other information with the SEC. These reports, proxy statements, and other information concerning us can be read and copied at the SEC s Public Reference Room at 450 Fifth Street, N.W., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the Public Reference Room. The SEC maintains an internet site at http://www.sec.gov that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC, including us. Our common stock is listed on the Nasdaq National Market under the symbol KLIC. The reports, proxy statements, and other information that we file with the SEC also are available at the following Nasdaq address: Nasdaq Operations, 1735 K Street, N.W., Washington, D.C. 20006.

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INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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Report of Independent Registered Public Accounting Firm

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

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Kulicke and Soffa Industries, Inc. and its subsidiaries at September 30, 2004 and September 30, 2003, and the results of their operations and their cash flows for each of the three years in the period ended September 30, 2004 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule presents fairly in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements 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 the standards of the Public Company Accounting Oversight Board (United States). Those standards 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 our opinion.

/s/ PricewaterhouseCoopers LLP

Philadelphia, Pennsylvania

December 14, 2004

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KULICKE AND SOFFA INDUSTRIES, INC.

CONSOLIDATED BALANCE SHEETS

(in thousands)

	September 30, 2003	September 30, 2004
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 65,725	$ 60,333
Restricted cash	2,836	3,257
Short-term investments	4,490	32,176
Accounts receivable, (net of allowance for doubtful accounts: 9/30/03 - $5,929; 9/30/04 - $3,646)	94,144	110,718
Inventories, net	37,906	58,017
Assets held for sale	6,799	6,072
Prepaid expenses and other current assets	11,187	10,310
Deferred income taxes	10,700	12,417
TOTAL CURRENT ASSETS	233,787	293,300
Property, plant and equipment, net	54,439	51,434
Intangible assets, (net of accumulated amortization: 9/30/03 - $26,187; 9/30/04 - $35,209)	66,249	54,045
Goodwill	81,440	81,440
Other assets	6,946	7,463
TOTAL ASSETS	$ 442,861	$ 487,682
LIABILITIES AND SHAREHOLDERS EQUITY		
CURRENT LIABILITIES:		
Current portion of long term debt	$ 36	$ 202
Accounts payable	45,844	50,002
Accrued expenses	41,885	37,660
Income taxes payable	13,394	11,986
TOTAL CURRENT LIABILITIES	101,159	99,850
Long term debt	300,338	275,725
Other liabilities	9,865	8,112
Deferred taxes	31,402	36,975
TOTAL LIABILITIES	442,764	420,662
Commitments and contingencies		
SHAREHOLDERS EQUITY:		
Preferred stock, without par value: Authorized - 5,000 shares; issued - none		
Common stock, without par value: Authorized - 200,000 shares; issued and outstanding: 2003 - 50,092; 2004 - 51,162	203,607	213,847
Retained earnings (deficit)	(195,792)	(139,912)
Accumulated other comprehensive loss	(7,718)	(6,915)
TOTAL SHAREHOLDER S EQUITY	97	67,020

TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	$ 442,861	$ 487,682

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

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KULICKE AND SOFFA INDUSTRIES, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share amounts)

	Fiscal Year Ended September 30,		
	2002	**2003**	**2004**
Net revenue	$ 441,565	$ 477,935	$ 717,811
Cost of sales	340,745	349,727	486,806
Gross profit	100,820	128,208	231,005
Selling, general and administrative	135,054	102,327	101,225
Research and development, net	51,929	38,121	34,611
Resizing	18,768	(475)	(68)
Asset impairment	31,594	3,629	3,293
Goodwill impairment	74,295		
Amortization of intangibles	9,864	9,260	9,022
Gain on sale of assets			(1,023)
Loss on sale of product lines		5,257	
Operating expense	321,504	158,119	147,060
Income (loss) from operations	(220,684)	(29,911)	83,945
Interest income	3,758	940	1,109
Interest expense	(18,699)	(17,431)	(10,466)
Charge on extinguishment of debt			(10,510)
Other income and minority interest	2,010		
Income (loss) from continuing operations before income taxes	(233,615)	(46,402)	64,078
Provision for income taxes for continuing operations	32,561	7,594	7,386
Net income (loss) from continuing operations	(266,176)	(53,996)	56,692
Loss from discontinued operations, net of tax	(7,939)	(22,693)	(432)
Loss on sale of FCT Division, net of tax			(380)
Net income (loss)	$ (274,115)	$ (76,689)	$ 55,880
Net income (loss) per share from continuing operations:			
Basic	$ (5.41)	$ (1.09)	$ 1.12
Diluted	$ (5.41)	$ (1.09)	$ 0.90
Loss per share from discontinued operations:			
Basic	$ (0.16)	$ (0.46)	$ (0.02)
Diluted	$ (0.16)	$ (0.46)	$ (0.01)
Net income (loss) per share:			
Basic	$ (5.57)	$ (1.54)	$ 1.10
Diluted	$ (5.57)	$ (1.54)	$ 0.89

Weighted average shares outstanding:			
Basic	49,217	49,695	50,746
Diluted	49,217	49,695	68,582

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

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KULICKE AND SOFFA INDUSTRIES, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

	Fiscal Year Ended September 30,		
	2002	**2003**	**2004**
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income (loss)	$ (274,115)	$ (76,689)	$ 55,880
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization	44,315	37,852	30,678
Charge on early extinguishment of debt			10,510
Tax benefit from exercise of stock options	329	89	991
Provision for doubtful accounts	158	519	(850)
Impairment of fixed and intangible assets	31,594	10,502	3,293
Impairment of goodwill	74,295	5,667	
Loss (gain) on sale of product lines and properties		5,257	(1,023)
Deferred taxes	32,808		466
Provision for inventory valuations	14,362	3,490	3,566
Non-cash employee benefits	5,061	2,230	2,262
Changes in working capital accounts, net of effect of acquired and sold businesses:			
Accounts receivable	(10,188)	(5,531)	(19,293)
Inventories	9,076	2,454	(23,766)
Prepaid expenses and other assets	(1,853)	(1,138)	1,512
Accounts payable and accrued expenses	7,855	(18,142)	1,750
Taxes payable	(4,739)	3,734	1,982
Other, net	(961)	604	3,304
Net cash provided by (used in) operating activities	(72,003)	(29,102)	71,262
CASH FLOWS FROM INVESTING ACTIVITIES:			
Proceeds from sales of investments classified as available for sale	59,224	26,287	17,286
Purchase of investments classified as available for sale	(33,850)	(8,603)	(44,992)
Purchases of plant and equipment	(20,385)	(10,975)	(13,405)
Sale (purchase) of Flip Chip	(96)		3,352
Purchase of Probe Tech, net of cash acquired	1,472		
Proceeds from sale of property and equipment		1,643	933
Net cash provided by (used in) investing activities	6,365	8,352	(36,826)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net proceeds from issuance of 0.5% convertible subordinated notes			199,328
Net proceeds from issuance of 1.0% convertible subordinated notes			63,189
Purchase of 4.75% convertible subordinate notes			(178,563)
Purchase of 5.25% convertible subordinate notes			(127,425)
Payments on borrowings, including capitalized leases	(1,685)	(205)	(93)
Restricted cash	(3,180)	344	(421)
Proceeds from issuances of common stock	1,438	424	4,162

Net cash provided by (used in) financing activities	(3,427)	563	(39,823)
Effect of exchange rate changes on cash and cash equivalents	15	(74)	(5)
Change in cash and cash equivalents	(69,050)	(20,261)	(5,392)
Cash and cash equivalents at:			
Beginning of year	155,036	85,986	65,725
End of year	$ 85,986	$ 65,725	$ 60,333
Supplemental Disclosures:			
Cash payments for interest	$ 15,400	$ 15,700	$ 11,100
Cash payments for income taxes	$ 9,200	$ 4,800	$ 4,800

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

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KULICKE AND SOFFA INDUSTRIES, INC.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY

(in thousands)

	Common Stock		Retained Earnings	Accumulated Other Comprehensive	Shareholders
	Shares	Amount	(Deficit)	Loss	Equity
Balances at September 30, 2001	49,034	$ 193,058	$ 155,012	$ (9,523)	$ 338,547
Employer contribution to the Company s 401K plan	214	2,478			2,478
Exercise of stock options	166	1,438			1,438
Tax benefit from exercise of stock options		329			329
Modification of stock options for terminated employees		2,583			2,583
Components of comprehensive income:					
Net loss			(274,115)		(274,115)
Translation adjustment				730	730
Unrealized loss on investments, net				(264)	(264)
Minimum pension liability (net of taxes of $1,294)				(2,403)	(2,403)
Total comprehensive loss					(276,052)
Balances at September 30, 2002	49,414	$ 199,886	$ (119,103)	$ (11,460)	$ 69,323
Employer contribution to Company s 401K plan	429	2,230			2,230
Employer contribution to Company s pension plan	150	987			987
Exercise of stock options	99	415			415
Tax benefit from exercise of stock options		89			89
Components of comprehensive income:					
Net loss			(76,689)		(76,689)
Translation adjustment				2,953	2,953
Unrealized gain on investments, net				51	51
Minimum pension liability (net of taxes of $397)				738	738
Total comprehensive loss					(72,947)
Balances at September 30, 2003	50,092	$ 203,607	$ (195,792)	$ (7,718)	$ 97
Employer contribution to Company s 401K plan	214	2,262			2,262
Employer contribution to Company s pension plan	230	2,825			2,825
Exercise of stock options	626	4,162			4,162
Tax benefit from exercise of stock options		991			991
Components of comprehensive income:					
Net income			55,880		55,880
Translation adjustment				445	445
Unrealized loss on investments, net				(42)	(42)
Minimum pension liability (net of taxes of $215)				400	400
Total comprehensive income					56,683
Balances at September 30, 2004	51,162	$ 213,847	$ (139,912)	$ (6,915)	$ 67,020

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

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KULICKE AND SOFFA INDUSTRIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

Management Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The more significant areas involving the use of estimates in these financial statements include allowances for uncollectible accounts receivable, reserves for excess and obsolete inventory, carrying value and lives of fixed assets, goodwill and intangible assets, valuation allowances for deferred tax assets, deferred tax liabilities for undistributed earnings of certain foreign subsidiaries, self insurance reserves, pension benefit liabilities, resizing, warranty and litigation. 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, 2004 and 2003 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, packaging materials and test interconnect products to a relatively small number of large manufacturers in a highly concentrated industry. The Company continually assesses the financial strength of its customers to reduce the risk of loss. Write-offs of uncollectible accounts have historically not been significant.

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

Investments - Investments, other than cash equivalents, are classified as trading, available-for-sale or held-to-maturity , in accordance with SFAS 115, and depending upon the nature of the investment, its ultimate maturity date in the case of debt securities, and management s intentions with respect to holding the securities. Investments classified as trading are reported at fair market value, with unrealized gains or losses included in earnings. Investments classified as available-for-sale are reported at fair market value, with net unrealized gains or losses reflected as a separate component of shareholders equity (accumulated other comprehensive income (loss)). The fair market value of trading and available-for-sale securities are determined using quoted market prices at the balance sheet date. Investments classified as held-to-maturity are reported at amortized cost. Realized gains and losses are determined on the basis of specific identification of the securities sold.

Allowance for Doubtful Accounts. The Company maintains allowances for doubtful accounts for estimated losses resulting from the inability of its customers to make required payments. If the financial condition of the Company s customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. The Company also is subject to concentrations of customers and sales to a few geographic locations, which may also impact the

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collectability of certain receivables. If economic or political conditions were to change in the countries where the Company does business, it could have a significant impact on the results of its operations, and its ability to realize the full value of its accounts receivable.

Inventories - Inventories are stated at the lower of standard cost (which approximates actual cost on a first-in first-out basis) or market value, except for certain gold inventories on hand that are stated at market value (along with a corresponding liability) in accordance with the terms of our gold supply financing agreement. The Company generally provides reserves for equipment inventory and spare parts and consumable inventories considered to be in excess of eighteen (18) months of forecasted future demand and test interconnect inventory considered to be in excess of 12 months of forecasted future demand. The forecasted demand is based upon internal projections, historical sales volumes, customer order activity and a review of consumable inventory levels at our customers facilities. The Company communicates forecasts of our future demand to its suppliers and adjusts commitments to those suppliers accordingly. If required, the Company reserves for the difference between the carrying value of its inventory and the lower of cost or market value, based upon assumptions about future demand, market conditions and the next cyclical market upturn. If actual market conditions are less favorable than its projections, additional inventory reserves may be required. The Company reviews and dispose of excess and obsolete inventory on a regular basis.

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

Long-Lived Assets The Company s long-lived assets include property, plant and equipment, goodwill and intangible assets. Effective October 1, 2001, the Company adopted SFAS 142, Goodwill and Other Intangible Assets. In accordance with the provisions of this standard, the Company s goodwill is no longer amortized. The standard also requires that an impairment test be performed to support the carrying value of goodwill at least annually, and whenever events occur that may impact the carrying value of goodwill. The Company s goodwill impairment test utilizes discounted cash flows to determine fair value and comparative market multiples to corroborate fair value.

The Company s intangible assets with determinable lives, which are comprised of customer accounts and complete technology in its test interconnect business segment, will continue to be amortized over their estimated useful life. The Company amortizes these intangible assets on a straight-line basis over the estimated period to be benefited by the intangible assets, which it estimates to be 10 years. The Company manages and values its complete technology in the aggregate as one asset group.

In accordance with SFAS No. 144, Accounting for the Impairment or Disposal of Long-lived Assets, the Company s intangible assets and property, plant and equipment are tested for impairment based on undiscounted cash flows, and if impaired, written-down to fair value based on either discounted cash flows or appraised values. This standard also provides a single accounting model for long-lived assets to be disposed of by sale and establishes additional criteria that would have to be met to classify an asset as held for sale. The carrying amount of an asset or asset group is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset or asset group. Estimates of future cash flows used to test the recoverability of a long-lived asset or asset group must incorporate the entity s own assumptions about its use of the asset or asset group and must factor in all available evidence. SFAS No. 144 requires that long-lived assets be tested for recoverability whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. Such events include significant under-performance relative to the expected historical or projected future operating results; significant changes in the manner of use of the assets; significant negative industry or economic trends and significant changes in market capitalization.

Shipping and Handling Revenues and Costs. In September 2000, the Emerging Issues Task Force (EITF) reached a final consensus on issue EITF No. 00-10, *Accounting for Shipping and Handling Revenues and Costs*. The Task Force concluded that amounts billed to customers related to shipping and handling should be classified as revenue. The Company adopted the consensus in fiscal 2001, and the impact was not material to its financial position and results of operations.

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Accounting for Costs Associated with Exit or Disposal Activities - In June 2002, the FASB issued SFAS 146, *Accounting for Exit or Disposal Activities* which addresses significant issues regarding the recognition, measurement, and reporting of costs that are associated with exit and disposal activities, including restructuring activities that are currently accounted for pursuant to the guidance that the Emerging Issues Task Force (EITF) has set forth in EITF 94-3, Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring). The Company has adopted this standard and the adoption did not have a material impact on the Company s financial position and results of operations, however, this standard will in certain circumstances change the timing of recognition of restructuring (resizing) costs.

Foreign Currency Translation The majority of the Company s business is transacted in U.S. dollars, however, the functional currency of some of the Company s subsidiaries is their local currency. For the Company subsidiaries that have a functional currency other than the U.S. dollar, gains and losses resulting from the translation of the functional currency into U.S. dollars for financial statement presentation are not included in determining net income 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 $(900) thousand, $(1.4) million and $120 thousand, for the fiscal years ended September 30, 2004, 2003 and 2002, respectively.

Revenue Recognition The Company recognizes revenue in accordance with Staff Accounting Bulletin No. 104 (SAB 104), *Revenue Recognition*. The Company recognizes revenue when persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, the price is fixed or determinable, the collectibility is reasonably assured, and it has completed its equipment installation obligations and received customer acceptance, or is otherwise released from its installation or customer acceptance obligations. In the event terms of the sale provide for a lapsing customer acceptance period, revenue is recognized based upon the expiration of the lapsing acceptance period or customer acceptance, whichever occurs first. The Company s standard terms are Ex Works (K&S factory), with title transferring to its customer at the Company s loading dock or upon embarkation. The Company does have a small percentage of sales with other terms, and revenue is recognized in accordance with the terms of the related customer purchase order. Revenue related to services is generally recognized upon performance of the services requested by a customer order. Revenue for extended maintenance service contracts with a term more than one month is recognized on a prorated straight-line basis over the term of the contract.

Research and Development The Company charges all research and development costs associated with the development of new products to expense when incurred.

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. The Company records a valuation allowance to reduce its deferred tax assets to the amount that is more likely than not to be realized.

Environmental Expenditures Future environmental remediation 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 - Earnings per share are calculated in accordance with SFAS No. 128, *Earnings Per Share*. Basic earnings per share include only the weighted average number of common shares outstanding during the period. Diluted earnings per share include the weighted average number of common shares and the dilutive effect of stock options and other potentially dilutive securities outstanding during the period, when such instruments are dilutive.

Extinguishment of Debt - In April 2002, the FASB issued SFAS 145, *Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections.* In rescinding FASB Statement No. 4 and FASB No. 64, FASB 145 eliminates the requirement that gains and losses from the extinguishment of debt be aggregated and, if material, classified as an extraordinary item, net of the related income tax effect. However, an entity would not be prohibited from classifying such gains and losses as extraordinary items so long as they meet the criteria of paragraph 20 of APB 30, Reporting the Results of Operations *Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions*. Further, the Statement amends SFAS 13 to eliminate an inconsistency between the accounting for sale leaseback transactions and certain lease modifications that have economic effects that are similar to sale leaseback transactions. The Company has adopted this standard and the adoption did not have a material impact on its financial position and results of operations.

Variable Interest Entities - In January 2003, the FASB issued Interpretation No. 46 (FIN 46), *Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51*. FIN 46 requires certain variable interest entities to be consolidated by the primary beneficiary of the entity if the equity investors in the entity do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. Effect October 1, 2003, the Company identified a business enterprise that qualifies as a variable interest entity and consolidated the entity into the Company s financial statements in accordance with the new requirements beginning with the quarter ending December 31, 2003. The impact of this change increased the Company s assets and liabilities by approximately $6.0 million.

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

In December 2002, the FASB issued SFAS 148, *Accounting for Stock-Based Compensation-Transition and Disclosure.* This Statement amends FASB Statement No. 123, *Accounting for Stock-Based Compensation,* to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, this Statement amends the disclosure requirements of Statement 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The Company has adopted the disclosure provisions of this standard.

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 weighted averages of 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,		
	2002	**2003**	**2004**
Expected dividend yield			
Expected stock price volatility	82.95%	84.78%	83.42%
Risk-free interest rate	5.40%	2.89%	3.32%
Expected life (years)	7	5	5

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

	(net loss in thousands) Fiscal Year Ended September 30,		
	2002	2003	2004
Net income (loss), as reported	$ (274,115)	$ (76,689)	$ 55,880
Deduct: Total stock-based compensation expense determined under fair value based method for all awards, net of related tax effects	(17,227)	(8,828)	(11,831)
Pro forma net income (loss)	$ (291,342)	$ (85,517)	$ 44,049
Net income (loss) per share:			
Basic-as reported	$ (5.57)	$ (1.54)	$ 1.10
Basic-pro forma	$ (5.92)	$ (1.72)	$ 0.87
Diluted - as reported	$ (5.27)	$ (1.54)	$ 0.89
Diluted - pro forma	$ (5.92)	$ (1.72)	$ 0.72

Reclassifications - Certain amounts in the Company s financial statements have been reclassified pursuant to the requirements of Financial Accounting Standards (SFAS) No. 144, Accounting for the Impairment of Long Lived Assets , to reflect the Company s Flip Chip business unit as a discontinued operation. The 2003 loss on sale of product lines, as further discussed in Note 4, has been reclassified to be included in the operating expenses section of the consolidated statement of operations, from its prior presentation outside of the operating results.

NOTE 2: DISCONTINUED OPERATIONS

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. In March 2001, the Company purchased the remaining interest in the joint venture owned by Delco for $5.0 million and included FCT in its Advanced Packaging business segment. FCT was not profitable.

In February 2004, the Company sold the assets of FCT for approximately $3.4 million in cash and notes, the agreement by the buyer to satisfy approximately $5.2 million of the Company s lease liabilities and the assumption of certain other liabilities. The sale included fixed assets, inventories, and intellectual property of the Company s flip chip business. The major classes of FCT assets and liabilities sold included: $3.6 million in accounts receivable, $119 thousand in inventory, $2.5 million in property, plant and equipment, $119 thousand in other long term assets, $1.5 million in accounts payable and $1.0 million in accrued liabilities. The Company recorded a net loss on the sale of FCT of $380 thousand. The net sales from FCT in fiscal 2004 were $9.4 million and net loss was $432 thousand. FCT has been recorded as a discontinued operation in these financial statements. The Company also reclassified its prior period financial statements to coincide with the current presentation.

The Company recorded revenue and pre-tax loss associated with FCT of $16.4 million and $22.7 million in fiscal 2003 and $23.1 million and $7.9 million in fiscal 2002. The Company recorded no income tax provision or benefit from the loss at FCT in fiscal 2002, 2003 and 2004.

NOTE 3: RESIZING COSTS

The semiconductor industry has been volatile, with sharp periodic downturns and slowdowns. The industry experienced excess capacity and a severe contraction in demand for semiconductor manufacturing equipment during our fiscal 2001, 2002 and most of 2003. The Company developed formal resizing plans in response to these changes in its business environment with the intent to align its cost structure with anticipated revenue levels. Accounting for resizing activities requires an

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evaluation of formally agreed upon and approved plans. The Company documented and committed to these plans to reduce spending that included facility closings/rationalizations and reductions in workforce. The Company recorded the expense associated with these plans in the period that it committed to the plans. Although the Company made every attempt to consolidate all known resizing activities into one plan, the extreme cycles and rapidly changing forecasting environment places limitations on achieving this objective. The recognition of a resizing event does not necessarily preclude similar but unrelated actions in future periods.

The Company recorded resizing charges of $18.8 million in fiscal 2002 and $4.2 million in fiscal 2001. In fiscal 2004, the Company reversed $68 thousand of these resizing charges and in fiscal 2003 it reversed $475 thousand of these resizing charges as the actual severance costs were less than the cost originally estimated.

In addition to the formal resizing costs identified below, the Company continued (and is continuing) to downsize its operations in fiscal 2002, 2003 and 2004. These downsizing efforts resulted in workforce reduction charges of $4.5 million in fiscal 2004, $5.6 million in fiscal 2003 and $5.0 million in fiscal 2002. In contrast to the resizing plans discussed above, these workforce reductions were not related to formal or distinct restructurings, but rather, the normal and recurring management of employment levels in response to business conditions and our ongoing effort to reduce the Company s cost structure. In addition, during fiscal 2003, if the business conditions were to have improved, the Company was prepared to rehire some of these terminated individuals. These recurring workforce reduction charges were recorded as Selling, General and Administrative expenses.

A table of the charges, reversals and payments of the formal resizing plans initiated in fiscal 2002 appears below:

	(in thousands)		
Fiscal 2002 Resizing Plans	**Severance and Benefits**	**Commitments**	**Total**
Provision for resizing plans in fiscal 2002			
Continuing operations	9,486	9,282	18,768
Discontinued operations	893		893
Payment of obligations in fiscal 2002	(5,914)	(300)	(6,214)
Balance, September 30, 2002	4,465	8,982	13,447
Change in estimate	(455)		(455)
Payment of obligations in fiscal 2003	(3,135)	(3,192)	(6,327)
Balance, September 30, 2003	875	5,790	6,665
Change in estimate	(68)		(68)
Payment of obligations	(440)	(2,619)	(3,059)
Balance, September 30, 2004	$ 367	$ 3,171	$ 3,538

The individual resizing plans and acquisition restructuring plans initiated in fiscal 2002 are described below:

Fourth Quarter 2002

In January 1999, the Company acquired the advanced substrate technology of MicroModule Systems, a Cupertino, California company, to enable production of high density substrates. While showing some progress in developing the substrate technology, the business was not profitable and would have required additional capital and operating cash to complete development of the technology. In light of the business downturn that was affecting the semiconductor industry at the time, in the fourth quarter of fiscal 2002, the Company announced that it could not afford to further develop the substrate technology and would close its substrate operations. As a result, the Company recorded a resizing charge of $8.5 million. The resizing charge included a severance charge of $1.2 million for the elimination of 48 positions and lease obligations of $7.3 million. By June 30, 2003, all the positions had been eliminated. The plans have been completed but cash payments for the lease obligations are expected to continue into 2006, or such time as the obligations can be satisfied. In addition to these resizing charges, in the fourth quarter of fiscal 2002, the Company wrote-off $7.3 million of fixed assets and $1.1 million of intangible assets associated with the closure of the substrate operation. This substrate business was included in the Company s then existing Advanced Packaging business segment.

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Third Quarter 2002

As a result of the continuing downturn in the semiconductor industry and the Company s desire to improve the performance of its test business segment, the Company decided to move towards a 24 hour per-day manufacturing model in its major U.S. wafer test facility, which would provide its customers with faster turn-around time and delivery of orders and economies of scale in manufacturing. As a result, in the third quarter of fiscal 2002, the Company announced a resizing plan to reduce headcount and consolidate manufacturing in its test business segment. As part of this plan, the Company moved manufacturing of wafer test products from its facilities in Gilbert, Arizona and Austin, Texas to its facilities in San Jose, California and Dallas, Texas and from its Kaohsuing, Taiwan facility to its Hsin Chu, Taiwan facility. The resizing plan included a severance charge of $1.6 million for the elimination of 149 positions as a result of the manufacturing consolidation. The resizing plan also included a charge of $0.5 million associated with the closure of the Kaohsuing, Taiwan facility and an Austin, Texas facility representing costs of non-cancelable lease obligations beyond the facility closure and costs required to restore the production facilities to their original state. All of the positions have been eliminated and both facilities have been closed. The plans have been completed but cash payments for the severance, facility and contractual obligations are expected to continue through 2005, or such earlier time as the obligations can be satisfied.

Second Quarter 2002

As a result of the continuing downturn in the semiconductor industry and the Company s desire to more efficiently manage its business, in the second quarter of fiscal 2002, the Company announced a resizing plan comprised of a functional realignment of business management and the consolidation and closure of certain facilities. In connection with the resizing plan, the Company recorded a charge of $11.3 million ($10.4 million in continuing operations and $0.9 million in discontinued operations), consisting of severance and benefits of $9.7 million for 372 positions that were to be eliminated as a result of the functional realignment, facility consolidation, the shift of certain manufacturing to China (including the Company s hub blade business) and the move of the Company s microelectronics products to Singapore and a charge of $1.6 million for the cost of lease commitments beyond the closure date of facilities to be exited as part of the facility consolidation plan.

In the second quarter of fiscal 2002, the Company closed five test facilities: two in the United States, one in France, one in Malaysia, and one in Singapore. These operations were absorbed into other company facilities. The resizing charge for the facility consolidation reflects the cost of lease commitments beyond the exit dates that are associated with these closed test facilities.

To reduce the Company s short term cash requirements, the Company decided, in the fourth quarter of fiscal 2002, not to relocate either its hub blade manufacturing facility from the United States to China or its microelectronics product manufacturing from the United States to Singapore, as previously announced. This change in the Company s facility relocation plan resulted in a reversal of $1.6 million of the resizing costs recorded in the second quarter of fiscal 2002. As a result the Company reduced its expected annual savings from this resizing plan for payroll related expenses by approximately $4.7 million.

Also in the fourth quarter of fiscal 2002, the Company reversed $600 thousand ($590 thousand in continuing operations and $10 thousand in discontinued operations) of the severance resizing expenses and in the fourth quarter of fiscal 2003 the Company reversed $353 thousand of resizing expenses, previously recorded in the second quarter of fiscal 2002, due to actual severance costs associated with the terminated positions being less than those estimated as a result of employees leaving the Company before they were severed.

As a result of the functional realignment, the Company terminated employees at all levels of the organization from factory workers to vice presidents. The organizational change shifted management of the Company businesses to functional (i.e. sales, manufacturing, research and development, etc.) areas across product lines rather than by product line. For example, research and development activities for the entire company are now controlled and coordinated by one corporate vice president under the functional organizational structure, rather than separately by each business unit. This structure provides for a more efficient allocation of human and capital resources to achieve corporate R&D initiatives.

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The plans have been completed but cash payments for the severance charges are expected to continue into 2005, or such time as the obligations can be satisfied.

NOTE 4: ASSET IMPAIRMENT

In addition to resizing costs (see Note 3), the Company terminated several of its major initiatives in its effort to more closely align its cost structure with expected revenue levels and wrote-down certain assets to their estimated fair market value. As a result, the Company recorded asset impairment charges of $3.3 million in fiscal 2004, $10.5 million ($3.6 in continuing operation and $6.9 million in discontinued operations) in fiscal 2003, and $31.6 million in fiscal 2002.

Fiscal 2004

In fiscal 2004, the Company recorded an asset impairment charge of $3.3 million, $3.2 million of which was due to the write-off of the portion of its complete technology intangible asset (see Note 5 for the Company s policy on testing its intangible assets for impairment) associated with its PC board fabrication business (which was closed in fiscal 2004) and $110 thousand was associated with the write-down of manufacturing equipment resulting from the closure of a probe card production facility in France.

Fiscal 2003

In fiscal 2003, the Company recorded an asset impairment charge of $10.5 million. The charge included: $6.9 million in its flip chip business unit to write-down assets to their estimated fair market value; $1.7 million associated with manufacturing equipment for a discontinued test product; $1.2 million associated with manufacturing equipment in a downsized test facility in Dallas, Texas; and $730 thousand resulting from the write-down of assets that were sold and assets that became obsolete. In the fourth quarter of fiscal 2003, the Company completed the sale of its sawing and hard material blades product lines as well as its polymer product line. As a result of these transactions, the Company recorded a loss of $5.3 million made up of asset write-offs of $6.5 million offset by cash proceeds of $1.2 million.

Fiscal 2002

In fiscal 2002, the Company recorded an asset impairment of $31.6 million. The charge included: $16.9 million due to the cancellation of a company-wide integrated information system; $8.4 million due to the write-off of assets associated with the closure of the substrates operation; $3.6 million for the write-off of development and license costs of certain engineering and manufacturing software; $1.4 million of write-offs associated with a closed wire facility in Taiwan; and $1.3 million related to leasehold improvements at the leased probe card manufacturing facilities in Malaysia and the United States, which were closed.

NOTE 5: GOODWILL AND INTANGIBLE ASSETS

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

In fiscal 2002, the Company reviewed its business and determined that there are five reporting units to be reviewed for impairment in accordance with the standard the reporting units were: the bonding wire, hub blade, substrate, flip chip and test businesses. The bonding wire and hub blade businesses are included in the Company s packaging materials segment, the substrate business is included in the Company s advanced packaging segment and the test business comprises the Company s test segment and the flip chip business unit is included in discontinued operations. There is no goodwill associated with the Company s equipment segment. Upon adoption of SFAS 142 in the first quarter of fiscal 2002, the Company completed the required transitional impairment testing of intangible assets, and based upon those analyses, did not identify any impairment charges as a result of adoption of this standard effective October 1, 2001.

Upon adoption of the standard in fiscal 2002, the Company reclassified $17.2 million of intangible assets relating to an acquired workforce in the test reporting unit into goodwill and correspondingly reduced goodwill by $4.9 million for the deferred tax liability established for basis differences of the workforce intangible for income tax and financial reporting purposes. Also in fiscal 2002, the Company reduced goodwill associated with the test reporting unit by $1.5 million reflecting the settlement of a purchase price dispute with the former owners of Probe Technology and increased goodwill associated with its flip chip reporting unit by $96 thousand reflecting an increase in the cost to purchase the former joint venture partner s equity share.

In fiscal 2001, 2002 and 2003, the semiconductor industry experienced a severe industry downturn. Due to the prolonged nature of the industry downturn, the Company continually recalibrated its businesses and projections of future operating activities. The Company saw an up-tick in its business in the spring of 2002 and at that time believed in was emerging from the effects of an industry down turn. However, this up-tick in business was not sustained and the Company s business turned back down in the second half of fiscal 2002. By the end of its fiscal 2002, the Company s recalibrated forecasts of future cash flows from its test, hub blades and substrate reporting units were substantially lower than in the beginning of that fiscal year, which lead to the closing of the substrate business and an associated write-off of all the substrate intangible assets of $1.1 million and goodwill impairment charges in the test business of $72.0 million and in its hub blades business of $2.3 million. Likewise, by the end of fiscal 2003, the Company s forecast of future cash flows from its flip chip business unit were lower than previous forecasts and resulted in goodwill and assets impairment charges of $5.7 million (included in discontinued operations) and the subsequent sale of the assets of this business. The Company recorded goodwill impairment charges in the period in which its analysis of future business conditions indicated that the reporting unit s fair value, and the implied value of goodwill, was less than its respective carrying values.

Due to the amount of goodwill associated with the Company s test reporting unit, the Company retained a third party valuation firm to assist management in estimating the test reporting unit s fair value at September 30, 2002. The appraisal was based on discounted cash flows of this reporting unit. The estimated fair value was determined using the Company s weighted average cost of capital. The estimated fair value was then corroborated by comparing the implied multiples applicable to the test reporting unit s projected earning to guideline companies forward earnings and based on this it was determined that they were within the range of the guideline companies. The fair value of the Company s test reporting unit at September 30, 2003 was determined in the same manner, however, as it was greater than the carrying value of the reporting unit, there was no goodwill impairment.

The Company also recorded a goodwill impairment charge at September 30, 2002 in its hub blade reporting unit. The Company calculated the fair value of this reporting unit based on the present value of its projected future cashflows. The estimated fair value was determined using the Company s weighted average cost of capital. The triggering event for this impairment charge was the recalibrated forecasts, in the fourth quarter of fiscal 2002, when the Company first determined that the fair value of the hub blade reporting unit was less than its carrying value.

As mentioned above, in September 2003, the Company recorded a goodwill impairment charge of $5.7 million (included in discontinued operations) at its flip chip business unit. The fair value of this reporting unit was determined using quoted prices from potential purchasers of this reporting unit. The quoted prices were subsequently confirmed upon the sale of the assets of the flip chip reporting unit in February of 2004. The triggering event for this impairment charge was also recalibrated forecasts in the fourth quarter of fiscal 2003, when the Company determined that the fair value of its flip chip reporting unit was less than its current carrying value.

In fiscal 2004, we performed interim goodwill impairment tests during the quarters ended December 31, 2003 and March 31, 2004 due to the existence of an impairment trigger, which was the losses experienced in our test business. Based on these test results and our annual impairment test, no impairment charge was recorded in fiscal 2004. The fair value of the test reporting unit was based on discounted cash flows of our projected future cash flows from this reporting unit, consistent with the methods used in fiscal 2002 and 2003. We also tested our intangible assets for impairment in the March 2004 quarter, as a result of the sale of certain assets of the test operations and recorded an impairment charge of $3.2 million associated with the reporting unit s purchased technology intangible asset. See Note 4.

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The value of goodwill at September 30, 2003 and 2004 was $81.4 million.

The changes in the value of intangible assets from September 30, 2002 to September 30, 2004 appear below:

	(in thousands)		
	Customer Accounts	**Complete Technology**	**Total Intangible Assets**
Intangible balance at September 30, 2002	$ 33,563	$ 41,946	$ 75,509
Amortization	(4,112)	(5,148)	(9,260)
Intangible balance at September 30, 2003	29,451	36,798	66,249
Impairment charge		(3,182)	(3,182)
Amortization	(4,112)	(4,910)	(9,022)
Intangible balance at September 30, 2004	$ 25,339	$ 28,706	$ 54,045

At September 30, 2004 all intangible assets are recorded in the test business segment. The aggregate amortization expense related to these intangible assets for the twelve months ended September 30, 2004 was $9.0 million compared to $9.3 million in fiscal 2003 and $9.9 million in fiscal 2002. The aggregate amortization expense for each of the next five fiscal years is expected to be $8.8 million.

NOTE 6: COMPREHENSIVE LOSS

At September 30, 2004, the components of Accumulated Other Comprehensive Loss, reflected in the Consolidated Balance Sheet, consisted of the following:

	(in thousands) **September 30,**	
	2003	**2004**
Loss from foreign currency translation adjustments	$ (961)	$ (516)
Unrealized gain (loss) on investments, net of taxes	(1)	(43)
Minimum pension liability, net of tax	(6,756)	(6,356)
Other comprehensive loss	$ (7,718)	$ (6,915)

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NOTE 7: INVESTMENTS

At September 30, 2004 and 2003, no short-term investments were classified as held-to-maturity. Investments, excluding cash equivalents, classified as available-for-sale, consisted of the following at September 30, 2004 and 2003:

	(in thousands)					
	September 30, 2003			September 30, 2004		
Available-for-sale:	**Fair Value**	**Unrealized Gains/ (Losses)**	**Cost Basis**	**Fair Value**	**Unrealized Gains/ (Losses)**	**Cost Basis**
Government and Corporate debt securities	$ 4,200	$	$ 4,200	$ 31,883	$ (64)	$ 31,947
Adjustable rate notes	290		290	293		293
Short-term investments classified as available for sale	$ 4,490	$	$ 4,490	$ 32,176	$ (64)	$ 32,240

In fiscal 2004, the Company purchased $45.0 million of securities it classified as available-for-sale and sold $17.3 million of available-for-sale securities. In fiscal 2003, the Company purchased $8.6 million of securities it classified as available-for-sale and sold $26.3 million of available-for-sale securities.

NOTE 8: BALANCE SHEET COMPONENTS

Inventories consist of the following: