AMKOR TECHNOLOGY INC
Form 10-K/A
April 25, 2002

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SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-KA

[X] ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2001
COMMISSION FILE NUMBER 000-29472

AMKOR TECHNOLOGY, INC.
(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

| DELAWARE | 23-1722724 |
|---|---|
| (STATE OF INCORPORATION) | (I.R.S. EMPLOYER IDENTIFICATION NUMBER) |

1345 ENTERPRISE DRIVE
WEST CHESTER, PA 19380
(610) 431-9600
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES AND ZIP CODE)

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT: NONE SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:
COMMON STOCK, $0.001 PAR VALUE
5 3/4% CONVERTIBLE SUBORDINATED NOTES DUE 2006
5% CONVERTIBLE SUBORDINATED NOTES DUE 2007

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes[X] No[ ]

Check if there is no disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is contained in this form, and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]

The aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the average bid and asked prices of such stock, was approximately $1,255,564,563 as of February 28, 2002.

The number of shares outstanding of each of the issuer's classes of common equity, as of February 28, 2002, was as follows: 163,667,294 shares of Common Stock, $0.001 par value.

Documents Incorporated by Reference: None.

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USE OF CERTAIN TERMS

All references in this annual report to "Amkor," "we," "us," "our" or the "company" are to Amkor Technology, Inc. and its subsidiaries. We refer to the Republic of Korea, which is also commonly known as South Korea, as "Korea." References to "won" are to the currency of Korea.



PART I

ITEM 1. BUSINESS

DISCLOSURE REGARDING FORWARD-LOOKING STATEMENTS

This business section contains forward-looking statements. In some cases, you can identify forward-looking statements by terminology such as "may," "will," "should," "expects," "plans," "anticipates," "believes," "estimates," "predicts," "potential," "continue" or the negative of these terms or other

comparable terminology. These statements are only predictions. Actual events or results may differ materially. In evaluating these statements, you should specifically consider various factors, including the risks outlined under "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Risk Factors that May Affect Future Operating Performance" in Item 7 of this annual report. These factors may cause our actual results to differ materially from any forward-looking statement.

OVERVIEW

Amkor is the world's largest subcontractor of semiconductor packaging and test services. The company has built a leading position through:

- one of the industry's broadest offerings of packaging and test services,
- expertise in the development and implementation of packaging and test technology,
- long-standing relationships with customers, including many of the world's leading semiconductor companies, and
- expertise in high-volume manufacturing.

We also market the output of fabricated semiconductor wafers provided by a wafer fabrication foundry owned and operated by Anam Semiconductor, Inc. (ASI). The semiconductors that we package and test for our customers ultimately become components in electric systems used in communications, computing, consumer, industrial, automotive and military applications. Our customers include, among others, Agere Systems, Inc., Atmel Corporation, Intel Corporation, LSI Logic Corporation, Motorola, Inc., Philips Electronics N.V., ST Microelectronics PTE, Sony Semiconductor Corporation, Texas Instruments, Inc. and Toshiba Corporation. The outsourced semiconductor packaging and test market is very competitive. We also compete from time to time with many of our vertically integrated customers, who may decide to outsource or not outsource certain of their packaging and test requirements.

Packaging and test are an integral part of the semiconductor manufacturing process. Semiconductor manufacturing begins with silicon wafers and involves the fabrication of electronic circuitry into complex patterns, thus creating individual chips on the wafers. The packaging process creates an electrical interconnect between the semiconductor chip and the system board. In packaging, the fabricated semiconductor chips are separated from the wafer, attached to a substrate and encased in a protective environment to provide optimal electrical and thermal performance. Increasingly, packages are custom designed for specific chips and specific end-market applications.

INDUSTRY BACKGROUND

Semiconductor devices are the essential building blocks used in most electronic products. As semiconductor devices have evolved, there have been three important consequences: (1) an increase in demand for computers and related products due to declining prices for such products, (2) the proliferation of semiconductor devices into diverse end products such as consumer electronics, communications equipment and automotive systems and (3) an increase in the number of semiconductor devices in electronic products.

TRENDS TOWARD OUTSOURCING

Historically, semiconductor companies packaged semiconductors primarily in their own factories and relied on

subcontract providers to handle overflow volume. In recent years, semiconductor companies have increasingly outsourced their packaging and testing to subcontract providers for the following reasons:

Subcontract providers have developed expertise in advanced packaging technologies.

Semiconductor companies are facing ever-increasing demands for miniaturization, higher lead counts and improved thermal and electrical performance in semiconductor devices. As a result of this trend, many semiconductor companies view packaging as an enabling technology requiring sophisticated expertise and technological innovation. However, they have had difficulty developing the necessary capabilities with their internal resources and are relying on subcontract providers of packaging and test services as a key source of new package designs.

Subcontract providers can offer shorter time to market for new products because their resources are dedicated to packaging and test solutions.

We believe that semiconductor companies are seeking to shorten the time to market for their new products and that having the right packaging technology and capacity in place is a critical factor in reducing delays for these companies.

Semiconductor companies frequently do not have sufficient time to develop their packaging and test capabilities or the equipment and expertise to implement new packaging technology in volume. For this reason, semiconductor companies are leveraging the resources and capabilities of subcontract packaging and test companies to deliver their new products to market more quickly.

Many semiconductor manufacturers do not have the economies of scale to offset the significant costs of building packaging and test factories.

Semiconductor packaging is a complex process requiring substantial investment in specialized equipment and factories. As a result of the large capital investment required, this manufacturing equipment must operate at a high capacity level for an extended period of time to be cost effective. Shorter product life cycles, faster introductions of new products and the need to update or replace packaging equipment to accommodate new products have made it more difficult for semiconductor companies to sustain high levels of capacity utilization. Subcontract providers of packaging and test services, on the other hand, can use equipment at high utilization levels over a longer period of time for a broad range of customers, effectively extending the life of the equipment.

The availability of high quality packaging and testing from subcontractors allows semiconductor manufacturers to focus their resources on semiconductor design and wafer fabrication rather than semiconductor packaging and testing.

As the cost to build a new wafer fabrication facility has increased to over $1 billion, semiconductor companies are choosing to focus their capital resources on core wafer fabrication activities. The availability of high quality packaging and testing from subcontractors allows semiconductor manufacturers to focus their resources on semiconductor design and wafer fabrication rather than semiconductor packaging and testing.

There is a growing number of semiconductor companies without factories, known as "fabless" companies, that outsource all of the manufacturing of their semiconductor designs.

Fabless semiconductor companies focus exclusively on the semiconductor design process and outsource virtually every significant step of the semiconductor manufacturing process. We believe that fabless semiconductor companies will continue to be a significant driver of growth in the subcontract packaging and test industry.

These outsourcing trends, combined with the growth in the number of semiconductor devices being produced and sold, are increasing demand for subcontracted packaging and test services. Today, nearly all of the world's major semiconductor companies use packaging and test service subcontractors for at least a portion, if not all, of their packaging and test needs.

Certain of the same forces driving the growth of subcontracted packaging and testing are also driving demand for subcontracted wafer fabrication services. Many semiconductor companies are outsourcing some or all of their wafer fabrication needs because the cost to build new wafer foundries has been rising steadily. This is particularly true for newer,



smaller geometry technologies which cannot be produced in many semiconductor companies' existing wafer foundries. As the demand for semiconductor devices with smaller geometries increases, we believe semiconductor companies will increasingly utilize subcontractors for wafer fabrication.

COMPETITIVE STRENGTHS

We believe our competitive strengths include the following:

LEADING INDUSTRY POSITION

We are the world's largest subcontractor of semiconductor packaging and test services. We have increased our revenues and built our leading position through:

- one of the industry's broadest offerings of packaging and test services,
- expertise in the development and implementation of packaging and test technology,
- long-standing relationships with our customers, and
- advanced manufacturing capabilities.

BROAD OFFERING OF PACKAGING AND TEST SERVICES

With more than 1,000 different package types, we offer one of the semiconductor industry's broadest lines of packaging services. We provide customers with a wide array of packaging alternatives including mature leadframe packages and newer advanced leadframe and laminate packages. We also offer an extensive line of services to test digital logic, analog and mixed signal semiconductor devices. We believe that the breadth of our packaging and test services is important to customers seeking to reduce the number of their suppliers.

LEADING TECHNOLOGY INNOVATOR

We believe that we are one of the leading providers of advanced semiconductor packaging and test solutions. We have designed and developed state-of-the-art thin package formats and laminate packages including our PowerQuad(R), Super BGA(R), fleXBGA(R) and ChipArray(R) BGA packages. To maintain our leading industry position, we have approximately 330 employees engaged in research and development focusing on the design and development of new semiconductor packaging and test technology. We work closely with customers and technology partners to develop new and innovative package designs.

LONG-STANDING RELATIONSHIPS WITH PROMINENT SEMICONDUCTOR COMPANIES

Our customer base consists of more than 300 companies, including most of the world's largest semiconductor companies. Over the last three decades we, with our predecessor companies, have developed long-standing relationships with many of our customers.

ADVANCED MANUFACTURING CAPABILITIES

We believe that our company's manufacturing excellence has been a key factor in our success in attracting and retaining customers. We have worked with our customers and our suppliers to develop proprietary process technologies to enhance our existing manufacturing capabilities. These efforts have directly resulted in reduced time to market, increased quality and lower manufacturing costs. We believe our manufacturing cycle times are among the fastest available from any subcontractor of packaging and test services.



COMPETITIVE DISADVANTAGES

You should be aware that our competitive strengths may be diminished or eliminated due to certain challenges faced by our company and which our principal competitors may not face, including the following:

- High Leverage and Restrictive Covenants -- Our substantial indebtedness could materially restrict our operations and adversely affect our financial condition.

- Risks Associated With International Operations -- We depend on our factories in the Philippines, Korea, Japan, Taiwan and China. Many of our customers' operations are also located outside of the U.S. To the extent political or economic instability occurs in any of these regions, our operations could be harmed.

- Difficulties Integrating Acquisitions -- We face challenges as we integrate new and diverse operations and try to attract qualified employees to support our expansion plans.

In addition, we and our competitors face a variety of operational and industry risks inherent to the industry in which we operate. For a complete discussion of risks associated with our business, please read "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Risk Factors that May Affect Future Operating Performance" in Item 7 of this annual report.

STRATEGY

To build upon our leading industry position and to remain the preferred

subcontractor of semiconductor packaging and test services, we are pursuing the following strategies:

CAPITALIZE ON OUTSOURCING TREND

The Company believes that while the outsourcing trend has been impacted during the present industry downturn, there remains a long-term trend towards more outsourcing on the part of semiconductor companies. During the downturn, we believe that many vertically integrated semiconductor companies increased the use of their in-house packaging and test capabilities in order to minimize the impact of significant excess internal capacity that resulted from sharply lowered demand. At the same time, however, there are examples where vertically integrated semiconductor companies have accelerated their use of outsourcing during this downturn. In January 2001, the Company commenced a venture with Toshiba Corporation, in which Toshiba outsourced an entire packaging and test factory to the venture, which is 60% owned by the Company. The Company also reached agreement with Agilent Technologies, whereby Agilent has ceased the packaging and testing of certain package types for its semiconductor devices used in printers, and is now using the Company as the exclusive provider of packaging and test services for these package types. We intend to continue to capitalize on the expected growth in the outsourcing of semiconductor packaging and test services. We believe semiconductor companies will increasingly outsource packaging and test services to companies who can provide advanced technology and high-quality, high-volume manufacturing expertise.

LEVERAGE SCALE AND SCOPE OF PACKAGING AND TEST CAPABILITIES

We are committed to expanding both the scale of our operations and the scope of our packaging and test services. We believe that our scale and scope allow us to provide cost-effective solutions to our customers in the following ways:

- We have the capacity to absorb large orders and accommodate quick turn-around times;

- We use our size and industry position to obtain low pricing on materials and manufacturing equipment; and

- We offer an industry-leading breadth of packaging and test services and can serve as a single source for many of our customers.



MAINTAIN OUR TECHNOLOGY LEADERSHIP

We intend to continue to develop leading-edge packaging technologies. We believe that our focus on research and product development will enable us to enter new markets early, capture market share and promote the adoption of our new package designs as industry standards. We seek to enhance our in-house research and development capabilities through the following activities:

- We are collaborating with customers to gain access to technology roadmaps for the next generation of semiconductor designs;

- We are collaborating with companies, such as Toshiba Corporation, Ericsson Corporation and Nokia Group to design new packages that function with the next generation of electronic products; and

- We are implementing new package designs by entering into technology alliances and by licensing leading-edge designs from others. For

example, we have entered into a strategic alliance with Sharp Corporation to promote chip scale packaging with fleXBGA(R). We have licensed from Tessera, Inc. their microBGA(R) design. We have also licensed "flip-chip" package technology from LSI Logic Corporation and wafer bumping technology from Flip Chip Technologies and Unitive Technologies. In general, these license agreements are non-exclusive, royalty-bearing arrangements with terms extending to various dates between 2008 and 2011.

PROVIDE AN INTEGRATED, TURNKEY SOLUTION

We are able to provide a complete turnkey solution comprised of semiconductor wafer fabrication, packaging and test services. We believe that this will enable customers to achieve faster time to market for new products and improved cycle times.

STRENGTHEN CUSTOMER RELATIONSHIPS

We intend to further develop our long-standing customer relationships. We believe that because of today's shortened technology life cycles, integrated communications are crucial to speed time to market. We have customer support personnel located near the facilities of major customers and in acknowledged technology centers. These support personnel work closely with customers to plan production for existing packages as well as to develop requirements for the next generation of packaging technology. In addition, we are implementing direct electronic links with our customers to enhance communication and facilitate the flow of real-time engineering data and order information.

PURSUE STRATEGIC ACQUISITIONS

We are evaluating candidates for strategic acquisitions and joint ventures to strengthen our core business and expand our geographic reach. We believe that there are many opportunities to acquire the in-house packaging operations of our customers and competitors. To the extent we acquire operations of our customers, we intend to structure any such acquisition to include long-term supply contracts with those customers. In addition, we intend to enter new markets near clusters of wafer foundries, which are large sources of demand for packaging and test services.

PACKAGING AND TEST SERVICES

PACKAGING SERVICES

We offer a broad range of package formats designed to provide our customers with a full array of packaging solutions. Our packages are divided into three families: traditional leadframe, advanced leadframe and laminate, as described below.

In response to the increasing demands of today's high-performance electronic products, semiconductor packages have evolved from traditional leadframe packages and now include advanced leadframe, and laminate formats. The differentiating



characteristics of these package formats include (1) the size of the package, (2) the number of electrical connections the package can support (3) the thermal

and electrical characteristics of the package, and (4), in the case of our System-in-Package family of laminate packages, the integration of multiple active and passive components in a single package.

As semiconductor devices increase in complexity, they often require a larger number of electrical connections. Leadframe packages are so named because they connect the electronic circuitry on the semiconductor device to the system board through leads on the perimeter of the package. Our laminate products, typically called ball grid array or BGA, use balls on the bottom of the package to create the electrical connections. This array format, which can support larger numbers of electrical connections, has become widely adopted since it was introduced in the mid-1990's.

Evolving semiconductor technology has allowed designers to increase the level of performance and functionality in portable and handheld electronics products, and this has led to the development of smaller package sizes. In leading-edge packages, the size of the package is reduced to approximately the size of the individual chip itself, in a process known as chip scale packaging.

The following table sets forth by product type, for the periods indicated, the amount of our packaging and test net revenues in millions of dollars and the percentage of such net revenues:

| | YEAR ENDED DECEMBER 31, | | | |
|---|---|---|---|---|
| | 2001 | | 2000 | |
| | (DOLLARS IN MILLIONS) | | | |
| Traditional leadframe..... | $ 450 | 33.7% | $ 648 | 32.2% |
| Advanced leadframe..... | 294 | 22.0 | 508 | 25.3 |
| Laminate..... | 444 | 33.2 | 720 | 35.8 |
| Test and other..... | 149 | 11.1 | 134 | 6.7 |
| Total packaging and test net revenues..... | $ 1,337 | 100.0% | $ 2,010 | 100.0% |

In addition, we had $181 million, $378 million and $293 million of net revenues from wafer fabrication services in 2001, 2000 and 1999, respectively.

Traditional Leadframe Packages

Traditional leadframe packages are the most widely used package family and are characterized by a chip encapsulated in a plastic mold compound with metal leads on the perimeter. This package family has evolved from a design where the leads are plugged into holes on the circuit board to a design where the leads are soldered to the surface of the circuit board. We offer a wide range of lead counts and body sizes to satisfy variations in the size of customers' semiconductor devices. Continuous engineering and customization has reduced the footprint of the package on the circuit board and improved the electrical performance of the package. In addition, we have designed package types to dissipate the heat generated by high-powered semiconductor devices. Such "power" designs are advancements on our small outline package (SOP) and metric quad flat package (MQFP) and are called PowerSOP(R) and PowerQuad(R).

Advanced Leadframe Packages

Our advanced leadframe packages are similar in design to our traditional

leadframe packages. However, the advanced leadframe packages generally are thinner and smaller, have more leads and have advanced thermal and electrical characteristics.

The thin small outline packages (TSOPs), thin shrink small outline packages (TSSOPs), and shrink small outline packages (SSOPs) are smaller than our traditional small outline integrated circuit (SOIC) package. The thin quad flat package (TQFP) is a smaller version of the metric quad flat package (MQFP). We also offer power versions of these package types to dissipate heat generated by high-powered semiconductor devices. We plan to continue to develop increasingly smaller versions of these packages to keep pace with continually shrinking semiconductor device sizes and demand for miniaturization of portable electronic products.



One of our newest package offerings is the MicroLeadFrame(TM), a family of "leadless" advanced leadframe packages that is particularly well suited for RF and wireless applications. Our smallest MicroLeadFrame package is only 2mm square and can fit on the head of a pin.

Laminate Packages

The laminate family employs the ball grid array design which utilizes a plastic or tape laminate substrate rather than a leadframe substrate and places the electrical connections on the bottom of the package rather than around the perimeter.

The ball grid array format was developed to address the need for higher lead counts required by advanced semiconductor devices. As the number of leads surrounding the package increased, packagers increased the proximity of the leads to one another in an attempt to maintain the size of the package. The nearness of one lead to another resulted in electrical shorting problems, and required the development of increasingly sophisticated and expensive techniques for producing circuit boards to accommodate the high number of leads.

The ball grid array format solved this problem by effectively creating leads on the bottom of the package in the form of small bumps or balls. These balls can be evenly distributed across the entire bottom surface of the package, allowing greater distance between the individual leads. For the highest lead count devices, the ball grid array configuration can be manufactured less expensively and requires less delicate handling at installation.

Our first package format in this family was the plastic ball grid array (PBGA). We have subsequently designed or licensed additional ball grid array package formats that have superior performance characteristics and features that enable low-cost, high-volume manufacturing. These new laminate products include:

- SuperBGA(R), which includes a copper layer to dissipate heat and is designed for low-profile, high-power applications;
- microBGA(R), which is designed to be approximately the same size as the chip and uses a thinner tape substrate rather than a plastic laminate substrate; and
- ChipArray(R) BGA, in which the package is only 1.5 mm larger than the chip itself.

ChipArray(R) BGA, TapeSuper BGA(R), TapeArray(TM)BGA and WaferScale Chip

Scale Package are extensions of other ball grid array packages that further reduce package size and increase manufacturing efficiency.

Test Services

We also provide our customers with services to test the specifications of semiconductor devices. We have the capability to test digital logic, analog and mixed signal products. Although test services were performed on only 16%, 17% and 17% of the total units shipped in 2001, 2000 and 1999, respectively, we believe that our ability to provide both packaging and test services at the same location provides us with a competitive advantage.

System in Package (SiP)

To capitalize on an increasing customer demand for multi-chip modules, we created our "System-in-Package" (SiP) business unit. A SiP module is an integrated solution that uses both advanced packaging and traditional surface mount techniques to enable the combination of otherwise incompatible technologies in a single, highly reliable laminate-based package. By integrating various system elements into a single-function block, the SiP module delivers space and power efficiency, high performance, and lower production costs. SiP technology has been utilized in manufacturing of wireless technology, memory cards and sensors.

WAFER FABRICATION SERVICES

In January 1998, we entered into a supply agreement with ASI to market wafer fabrication services provided by ASI's semiconductor wafer fabrication facility. Using 0.35 micron, 0.25 micron and 0.18 micron complementary metal oxide



silicon ("CMOS") process technology provided by Texas Instruments pursuant to technology assistance agreements with ASI, this facility currently has a capacity to produce 28,000 eight-inch wafers per month. The wafer fabrication facility primarily manufactures digital signal processors ("DSPs"), application-specific integrated circuits ("ASICs") and other logic devices, which are found in many advanced electronic products.

We plan to continue to focus our semiconductor technology development efforts to serve the high-performance digital logic market. However, as technological capability evolved and the need for new CMOS designs arose, we added embedded memory and special analog functionality to our core CMOS technology. We provide complete turnkey solutions comprised of wafer fabrication, packaging and test services. We believe this turnkey solution enables our customers to achieve faster time to market for new products and reduce manufacturing costs.

Agreements With ASI and Texas Instruments

Under the 1998 Manufacturing and Purchase Agreement between our company and Texas Instruments (as amended on July 1, 2000), Texas Instruments agreed to purchase from us at least 40%, and under certain circumstances had the right to purchase 70%, of ASI's wafer fabrication facility's capacity. From time to time, Texas Instruments has failed to meet its minimum purchase obligations, and we cannot assure you that Texas Instruments will meet its purchase obligations in the future. As a result of the weakness in the semiconductor industry, Texas Instruments' demand for the output of ASI's wafer fabrication facility decreased significantly in 2001 and they failed to meet minimum purchase obligations.

Texas Instruments made certain concessions to us to partially mitigate this shortfall in demand.

The Manufacturing and Purchase Agreement between Texas Instruments and our company was amended again on December 31, 2001. This most recent amendment is among Texas Instruments, ASI and Amkor and relates both to matters covered by the prior Manufacturing and Purchase Agreement as well as matters covered by the most recent technical assistance agreement between Texas Instruments and ASI. Pursuant to the newly amended Manufacturing and Purchase Agreement, we agreed to modify Texas Instruments' purchase obligation to 40% of ASI's wafer fabrication facility's capacity in the quarter ending March 31, 2002, 30% of such capacity in the quarter ending June 30, 2002, and 20% of such capacity in each subsequent quarter. Texas Instruments has agreed to increase its purchases to at least 40% of such capacity if a new technical assistance agreement covering advanced wafer fabrication technology is entered into among ASI, Amkor and Texas Instruments prior to December 31, 2002. A failure by Texas Instruments to purchase the required minimum quantities of wafers under the prior Manufacturing and Purchase Agreement and the newly amended Manufacturing and Purchase Agreement constitutes a breach of each Agreement, although there is no specific financial or penalty assessable against Texas Instruments under the prior or the newly amended Agreement for any such failure. In addition, the amended Manufacturing and Purchase Agreement also transfers high voltage Linear BiCMOS technology to ASI's wafer fabrication facility. We anticipate that this linear BiCMOS process technology will be used primarily for customers other than Texas Instruments at this time.

The Manufacturing and Purchasing Agreement and related technical assistance agreements terminate on December 31, 2007, unless they have been previously terminated. The agreements may be terminated upon, among other things: (1) the consent of ASI, Texas Instruments and the company; (2) a material breach by ASI, Texas Instruments or the company; (3) the failure of ASI or the company to protect Texas Instruments' intellectual property; or (4) the parties' failure to enter into a new technical assistance agreement by December 31, 2002.

If the parties fail to enter into a new technical assistance agreement by December 31, 2002, then any party may give the other notice of termination. This notice will, among other things, result in the amended Manufacturing and Purchasing Agreement and the technology assistance agreements terminating two years after such notice. During such two-year period, Texas Instruments will only be obligated to purchase a minimum of 20% of the ASI wafer fabrication facility's capacity. In addition, even if the parties were to enter into a new technical assistance agreement, that agreement would provide that if ASI is not able to enter into production using the advanced wafer fabrication technology licensed under that agreement, the Manufacturing and Purchasing Agreement is terminable by any party as discussed above over a two year period beginning on December 31, 2002.

In order for the Manufacturing and Purchasing Agreement and the technology assistance agreements to continue until December 31, 2007, Amkor, ASI and Texas Instruments would have to enter into a new technology assistance agreement by December 31, 2002. However, the advanced wafer fabrication technology that would be licensed under this agreement would require ASI either to (i) invest in excess of $400 million to refurbish its existing manufacturing facility, requiring the shutdown of part or all of its existing facility during the period of refurbishment, or (ii) obtain access to a new or existing manufacturing facility owned by a third party that could support the advanced technology. A third option for ASI would be to build and equip a new manufacturing facility, but this option would require substantially greater capital investment by ASI

than the other options. We cannot be certain that Amkor and ASI will be able to negotiate successfully a new technical assistance agreement with Texas Instruments. Moreover, we believe that it will be extremely difficult for ASI to finance, acquire and equip the necessary manufacturing facility to deploy the advanced wafer fabrication technology that would be transferred by Texas Instruments. In the event the Manufacturing and Purchasing Agreement and the technology assistance agreements with Texas Instruments were to be terminated, we cannot be certain what the nature of Amkor's and ASI's business relationship, if any, would be with Texas Instruments. If Texas Instruments were to significantly reduce or terminate its purchase of ASI's wafer fabrication services, our wafer fabrication business would be seriously harmed. However, we have maintained a strong historical relationship with Texas Instrument and we currently expect that in the event new manufacturing and technology assistance agreements could not be entered into by December 31, 2002, Texas Instruments would negotiate a new relationship with our company and continue to use our company's wafer fabrications services for a significant portion of its outsourced wafer fabrication needs.

Under the existing technical assistance agreements between Texas Instruments and ASI, ASI has a license to use certain wafer fabrication-related trade secrets of Texas Instruments for non-Texas Instruments' products. In the event that the Manufacturing and Purchase Agreement is terminated, this license will also terminate. At such time, it would be necessary for ASI to negotiate a new license agreement with Texas Instruments relating to its trade secrets, or ASI would not be able to continue its wafer fabrication operations as currently practiced. This would have the result of shutting down the wafer fabrication business of ASI and Amkor unless and until alternative technology arrangements could be made and implemented at ASI's wafer manufacturing facility.

RESEARCH AND DEVELOPMENT

Our research and development efforts focus on developing new package designs and improving the efficiency and capabilities of our existing production processes. We believe that technology development is one of the key success factors in the semiconductor packaging and test market and believe that we have a distinct advantage in this area. Our research and development efforts support our customers needs for smaller packages and increased functionality. We continue to invest our research and development resources to continue the development of our Flip Chip interconnection solutions, our System-in-Package technology, that uses both advanced packaging and traditional surface mount techniques to enable the combination of technologies in a single chip, and our Chip Scale packages that are nearly the size of the semiconductor die.

As of December 31, 2001, we employ approximately 330 persons in research and development activities. In addition, we involve management and operations personnel in research and development activities. In 2001, 2000 and 1999, we spent $38.8 million, $26.1 million and $11.4 million, respectively, on research and development. We expect to continue to invest in research and development.

We intend to continue to develop leading-edge packaging technologies. We believe that our focus on research and product development will enable us to enter new markets early, capture market share and promote the adoption of our new package designs as industry standards. We seek to enhance our in-house research and development capability through the following activities:

- We are collaborating with customers to gain access to technology roadmaps for the next generation of semiconductor designs;

- We are collaborating with companies, such as Toshiba Corporation, Ericsson Corporation and Nokia Group to design new packages that function with the next generation of electronic products; and

- We are implementing new package designs by entering into technology alliances and by licensing leading-edge designs from others. For example, we have entered into a strategic alliance with Sharp Corporation to promote chip scale packaging with fleXBGA(R). We have licensed from Tessera, Inc. their microBGA(R) design. We have also licensed "flip-chip" package technology from LSI Logic Corporation and wafer bumping technology from Flip Chip Technologies and Unitive Technologies. In general, these license agreements are non-exclusive, royalty-bearing arrangements with terms extending to various dates between 2008 and 2011.



MARKETING AND SALES

We sell our packaging and test services and wafer fabrication services to our customers and support them through a network of international offices. To better serve our customers, our offices are located near our largest customers or near a concentration of several of our customers. Our office locations include sites in the U.S. (Austin, Texas; Boise, Idaho; Boston, Massachusetts; Chandler, Arizona; Dallas, Texas; Greensboro, North Carolina; Santa Clara, California; and West Chester, Pennsylvania), France, Singapore, Taiwan, the Philippines, Japan and Korea. We have historically derived a majority of our net revenues from U.S.-based customers.

To provide comprehensive sales and customer service, we assign each of our customers a direct team consisting of an account manager, a technical program manager and one or more customer support representatives. We also typically support our largest multinational customers from multiple offices.

The direct teams are closely supported by an extended staff of product managers, process and reliability engineers, marketing and advertising specialists, information systems technicians and factory personnel. Together, these direct and extended teams deliver an array of services to our customers. These services include: (1) providing information and expert advice on packaging solutions and trends, (2) managing the start-up of specific packaging and test programs, (3) providing a continuous flow of information to the customers regarding products and programs in process and (4) researching and helping to resolve technical and logistical issues.

We are implementing direct electronic links with our customers to enhance communication and facilitate the flow of real-time engineering data and order information. These links connect our customers to our sales and marketing personnel worldwide and to our factories.

CUSTOMERS

As of February 28, 2002, we had more than 300 customers, and our customers include many of the largest semiconductor companies in the world. The table below lists our top 50 customers in 2001 based on revenues:

Adaptec, Inc.
Advanced Micro Devices, Inc.
Agere Technologies, Inc.
Agilent Technologies
Alcatel Mietec

Altera Corporation
American Micro Systems, Inc.
Analog Devices, Inc.
Atmel Corporation
Austria Mikro Systeme
Broadcome Corporation
Cirrus Logic
Conexant
Displaytech Inc.
ESS Technology Inc.
Fairchild Semiconductor Corporation
Hynix Semiconductor
IC Works Inc.
Infineon Technologies AG
Integrated Circuit Systems, Inc.
Integrated Device Technology, Inc.
Intel Corporation
International Business Machines Corp.
International Rectifier
Intersil Corporation
Lattice Semiconductor Corporation
LSI Logic Corporation
Macronix International Corporation
Maxim Integrated Circuits
Mediatek Inc.
Microchip Technology Inc.
Motorola, Inc.
National Semiconductor Corp.
NEC Corporation Ltd.
ON Semiconductor
PMC - Sierra Inc.
Philips Electronics
R.F. Micro Devices
Robert Bosch GmbH
SEC - ONYANG
Silicon Laboratories
Sony Semiconductor Corporation
ST Microelectronics PTE
Standard Microsystems
Texas Instruments, Inc.
Toshiba
Via Technologies, Inc.
Xilinx, Inc.
Zarlink Semiconductor
Zilog Electronics



We derive substantially all of our wafer fabrication revenues from Texas Instruments (TI). Total net revenues derived from TI accounted for 10.2%, 14.1% and 16.5% of net revenues in 2001, 2000 and 1999, respectively. Intel Corporation, accounted for approximately 14.1% of net revenues in 1999. Revenues for services provided to Intel for 2001 and 2000 did not exceed 10%. With the commencement of operations of Amkor Iwate and the acquisition of a packaging and test facility from Toshiba, total net revenues derived from Toshiba accounted for 14.3% of our consolidated net revenues for 2001.

MATERIALS AND EQUIPMENT

Our packaging operations depend upon obtaining adequate supplies of materials and equipment on a timely basis. The principal materials used in our packaging process are leadframes or laminate substrates, gold wire and molding compound. We purchase materials based on customer orders, and our customers are generally responsible for any unused materials in excess of the quantity that they indicated that they would need.

We work closely with our primary material suppliers to insure that materials are available and delivered on time. Moreover, we also negotiate worldwide pricing agreements with our major suppliers to take advantage of the scale of our operations. We are not dependent on any one supplier for a substantial portion of our material requirements.

Our packaging operations and our expansion plans also depend on obtaining adequate supplies of manufacturing equipment on a timely basis. We work closely with major equipment suppliers to insure that equipment is delivered on time and that the equipment meets our stringent performance specifications.

For a discussion of additional risks associated with our materials and equipment suppliers, see "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Risk Factors that May Affect Future Operating Performance" in Item 7 of this annual report.

ENVIRONMENTAL MATTERS

The semiconductor packaging process uses chemicals and gases and generates byproducts that are subject to extensive governmental regulations. For example, at our foreign manufacturing facilities, we produce liquid waste when silicon wafers are diced into chips with the aid of diamond saws, then cooled with running water. Federal, state and local regulations in the United States, as well as environmental regulations internationally, impose various controls on the storage, handling, discharge and disposal of chemicals used in our manufacturing processes and on the factories we occupy.

We have been engaged in a continuing program to assure compliance with federal, state and local environmental laws and regulations. We do not expect capital expenditures or other costs attributable to compliance with environmental laws and regulations to have a material adverse effect on our business, results of operations or financial condition.

For a discussion of additional risks associated with the environmental issues, see "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Risk Factors that May Affect Future Operating Performance -- Environmental Regulations" in Item 7 of this annual report.

COMPETITION

The subcontracted semiconductor packaging and test market is very competitive. An industry analyst estimates our company along with our 12 principal competitors accounted for approximately 89.5% of the outsourced packaging and test market.

We face substantial competition from established packaging and test service providers primarily located in Asia, including companies with significant manufacturing capacity, financial resources, research and development operations, marketing and other capabilities. These companies include Advanced Semiconductor Engineering, Inc., ASE Test Limited, ASAT Ltd., ChipPAC Incorporated, Oriental Semiconductor Engineering, ST Assembly and Test Services, and Siliconware Precision Industries Co., Ltd. Such companies have also established relationships with many large semiconductor companies that are

current or potential customers of our company. On a larger scale, we also compete with the internal semiconductor packaging and test capabilities of many of our customers.



The principal elements of competition in the subcontracted semiconductor packaging market include: (1) breadth of package offering, (2) technical competence, (3) new package design and implementation, (4) manufacturing yields, (5) manufacturing cycle times, (6) customer service and (7) price. We believe that we generally compete favorably with respect to each of these factors.

The subcontracted wafer fabrication business is also highly competitive. Our wafer fabrication services compete primarily with other semiconductor wafer fabrication subcontractors, including those of Chartered Semiconductor Manufacturing, Inc., Taiwan Semiconductor Manufacturing Company, Ltd. and United Microelectronics Corporation. Each of these companies has significant manufacturing capacity, financial resources, research and development operations, marketing and other capabilities and has been operating for some time. We also expect to compete with device manufacturers that provide semiconductor wafer fabrication facility services for other semiconductor companies, such as LG Semicon Co., Ltd., Hitachi, Ltd., Toshiba Corp. and Winbond Electronics Corporation. Each of these semiconductor wafer foundries, and many of these companies have also established relationships with many large semiconductor companies that are current or potential customers of our company.

The principal elements of competition in the wafer fabrication facility market include: (1) technical competence, (2) new semiconductor wafer design and implementation, (3) manufacturing yields, (4) manufacturing cycle times, (5) customer service and (6) price. As with the subcontracted semiconductor packaging market, we believe that we generally compete favorably with respect to each of these factors.

INTELLECTUAL PROPERTY

As of February 2002, we held 121 U.S. patents, and we had 257 pending patents and we were preparing an additional 20 patent applications for filing. In addition to the U.S. patents we held 440 patents in foreign jurisdictions. We expect to continue to file patent applications when appropriate to protect our proprietary technologies, but we cannot assure you that we will receive patents from pending or future applications. In addition, any patents we obtain may be challenged, invalidated or circumvented and may not provide meaningful protection or other commercial advantage to us. We also enter into agreements with other developers of packaging technology to license or otherwise obtain certain process or packaging technologies.

We may need to enforce our patents or other intellectual property rights or to defend our company against claimed infringement of the rights of others through litigation, which could result in substantial cost and diversion of our resources. If we fail to obtain necessary licenses or if we face litigation relating to patent infringement or other intellectual property matters, our business could suffer.

Although we are not currently a party to any material litigation, the semiconductor industry is characterized by frequent claims regarding patent and other intellectual property rights. If any third party makes a valid claim against our company or ASI, our company or ASI could be required to: (1) discontinue the use of certain processes, (2) cease the manufacture, use, import and sale of infringing products, (3) pay substantial damages, (4) develop non-infringing technologies or (5) acquire licenses to the technology we had allegedly infringed. Our business, financial condition and results of operations

could be materially and adversely affected by any of these negative developments.

EMPLOYEES

As of December 31, 2001, we had approximately 21,600 full-time employees. Of these employees, 17,770 were engaged in manufacturing, 2,400 were engaged in manufacturing support, 330 were engaged in research and development, 280 were engaged in marketing and sales and 820 were engaged in finance, business management and administration. We believe that our relations with our employees are good. We have never experienced a work stoppage in any of our factories. Our employees in the U.S., the Philippines, Taiwan and China are not represented by a collective bargaining unit. Certain members of our factories in Korea and Japan are members of a union, and all employees at these factories are subject to collective bargaining agreements.



ITEM 2. PROPERTIES

We provide packaging and test services through our factories in Korea, Philippines, Taiwan, China and Japan. We also source wafer fabrication services from ASI's semiconductor wafer fabrication facility located in Korea pursuant to a supply agreement. In addition, we have a research and development facility at our Chandler, Arizona site.

We believe that total quality management is a vital component of our advanced manufacturing capabilities. We have established a comprehensive quality operating system designed to: (1) promote continuous improvements in our products and (2) maximize manufacturing yields at high volume production without sacrificing the highest quality standards. The majority of our factories are ISO9001, ISO9002, ISO14001, QS9000 and SAC Level I certified. Additionally, as we acquire or construct additional factories we commence the quality certification process to meet the certification standards of our existing facilities. We believe that many of our customers prefer to purchase from quality certified suppliers. In addition to providing world-class manufacturing services, our factories in the Philippines and Korea provide purchasing, engineering and customer service support.

The size, location, and manufacturing services provided by each of our company's and ASI's factories, are set forth in the table below.

| LOCATION | APPROXIMATE FACTORY SIZE (SQUARE FEET) | SERVICES |
|---|---|---|
| OUR FACTORIES | | |
| KOREA | | |
| Seoul, Korea (K1) | 670,000 | Packaging services<br>Package and process development |
| Pucheon, Korea (K2) | 271,000 | Packaging services |
| Pupyong, Korea (K3) | 428,000 | Packaging and test services |
| Kwangju, Korea (K4) | 779,000 | Packaging and test services |
| PHILIPPINES | | |
| Muntinlupa, Philippines (P1) | 547,000 | Packaging and test services<br>Packaging and process development |

| | | |
|---|---|---|
| Muntinlupa, Philippines (P2) | 112,000 | Packaging services |
| Province of Laguna, Philippines (P3) | 406,000 | Packaging and test services |
| Province of Laguna, Philippines (P4) | 200,000 | Test services |
| TAIWAN | | |
| Lung Tan, Taiwan (T1) | 275,000 | Packaging and test services |
| Linkou, Taiwan (T2) | 80,000 | Packaging services |
| CHINA | | |
| Shanghai, China | 145,000 | Packaging and test services |
| JAPAN | | |
| Kitakami, Japan | 142,000 | Packaging and test services |
| ASI'S FACTORY | | |
| Pucheon, Korea | 480,000 | Wafer fabrication services |

Our operational headquarters is located in Chandler, Arizona, and our administrative headquarters is located in West Chester, Pennsylvania. In addition to an executive staff, the Chandler, Arizona campus houses: (1) sales and customer service for the southwest region, (2) product management planning and marketing and (3) a 121,000 square foot center for technical design and research and development. The West Chester location houses finance and accounting, legal, and information systems, and serves as a satellite sales office for our eastern sales region.



ITEM 3. LEGAL PROCEEDINGS

In the ordinary course of business we may be involved in legal proceedings from time to time. As of the date of this annual report, there are no material proceedings pending against us.

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

There were no matters submitted to a vote of security holders during the fourth fiscal quarter of the fiscal year ended December 31, 2001.

PART II

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

Our common stock is traded on the Nasdaq National Market under the symbol "AMKR." Public trading of the common stock began on May 1, 1998. Prior to that, there was no public market for our common stock.

The following table sets forth, for the periods indicated, the high and low sale price per share of our common stock as quoted on the Nasdaq National Market.

| | HIGH | |
|---|---|---|
| 2001 | | |
| First Quarter | $ 23.6250 | $ |
| Second Quarter | 25.0000 | |
| Third Quarter | 22.4800 | |

| | | |
|---|---|---|
| Fourth Quarter | | 18.0200 |
| 2000 | | |
| First Quarter | $ | 64.5625 |
| Second Quarter | | 61.6250 |
| Third Quarter | | 38.8125 |
| Fourth Quarter | | 26.3750 |

There were approximately 379 holders of record as of February 28, 2002 of our common stock.

DIVIDEND POLICY

We currently expect to retain future earnings, if any, for use in the operation and expansion of our business and do not anticipate paying any cash dividends in the foreseeable future. In addition, our secured bank debt agreements and the indentures governing our senior, senior subordinated and convertible subordinated notes restrict our ability to pay dividends.

RECENT SALES OF UNREGISTERED SECURITIES

None.



ITEM 6. SELECTED FINANCIAL DATA

SELECTED HISTORICAL CONSOLIDATED FINANCIAL DATA

We have derived the selected historical consolidated financial data presented below for, and as of the end of, each of the years in the five-year period ended December 31, 2001 from our consolidated financial statements. You should read the selected consolidated financial data set forth below in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements and the related notes, included elsewhere in this annual report.

The summary consolidated financial data below reflects the following transactions on a historical basis (i) our 1999 acquisition of K4 from ASI for $582.0 million together with its related financing, (ii) our 2000 acquisitions of K1, K2 and K3 from ASI for $950.0 million and equity investment in ASI of $459.0 million together with the related financing for the acquisitions and investment and (iii) our 2001 acquisitions of Amkor Iwate Corporation, Sampo Semiconductor Corporation and Taiwan Semiconductor Technology Corporation (a prior equity investment). We have presented the gains and losses from the disposal of fixed assets as a separate line item above operating income. Previously reported amounts have been reclassified from other (income) expense to conform with the current presentation.

| | YEAR ENDED DECEMBER | |
|---|---|---|
| | 2001 | 2000 |
| | (IN THOUSANDS, EXCEPT PER SH | |
| INCOME STATEMENT DATA: | | |
| Net revenues | $ 1,517,862 | $ 2,387,294 |
| Cost of revenues--including purchases from ASI | 1,448,064 | 1,782,158 |

| | | |
|---|---|---|
| Gross profit | 69,798 | 605,136 |
| Operating expenses: | | |
| Selling, general and administrative | 200,218 | 192,623 |
| Research and development | 38,786 | 26,057 |
| Loss (gain) on disposal of fixed assets | 14,515 | 1,355 |
| Amortization of goodwill and other acquired intangibles | 84,962 | 63,080 |
| Total operating expenses | 338,481 | 283,115 |
| Operating income (loss) | (268,683) | 322,021 |
| Other (income) expense: | | |
| Interest expense, net | 164,064 | 119,840 |
| Foreign currency (gain) loss | 872 | 4,812 |
| Other (income) expense, net (a) | (3,669) | (60) |
| Total other expense | 161,267 | 124,592 |
| Income (loss) before income taxes, equity in income (loss) of investees and minority interest | (429,950) | 197,429 |
| Provision (benefit) for income taxes(b) | (81,691) | 22,285 |
| Equity in income (loss) of investees (c) | (100,706) | (20,991) |
| Minority interest (d) | (1,896) | -- |
| Net income (loss) (b) | $ (450,861) | $ 154,153 |
| Basic net income (loss) per common share | $ (2.87) | $ 1.06 |
| Diluted net income (loss) per common share | $ (2.87) | $ 1.02 |
| Pro Forma Data (Unaudited) (b): | | |
| Historical income before income taxes, equity in income (loss) of ASI and minority interest | | |
| Pro forma provision for income taxes | | |
| Pro forma income before equity in income (loss) of investees and minority interest | | |
| Historical equity in income (loss) of investees | | |
| Historical minority interest | | |
| Pro forma net income | | |
| Basic pro forma net income per common share | | |
| Diluted pro forma net income per common share | | |
| Shares used in computing basic pro forma net income per common share | 157,111 | 145,806 |
| Shares used in computing pro forma diluted net income per common share | 157,111 | 153,223 |
| OTHER FINANCIAL DATA: | | |
| Depreciation and amortization including debt issue costs | $ 465,083 | $ 332,909 |
| Capital expenditures | 158,700 | 480,074 |

| | YEAR ENDED DECEMBER 31, | |
|---|---|---|
| | 1998 | 1997 |
| | (IN THOUSANDS, EXCEPT PER SHARE D | |
| INCOME STATEMENT DATA: | | |
| Net revenues | $ 1,567,983 | $ 1,455,761 |
| Cost of revenues--including purchases from ASI | 1,307,150 | 1,242,669 |
| Gross profit | 260,833 | 213,092 |
| Operating expenses: | | |
| Selling, general and administrative | 118,392 | 103,021 |
| Research and development | 8,251 | 8,525 |
| Loss (gain) on disposal of fixed assets | 1,837 | (239) |
| Amortization of goodwill and other acquired intangibles | 1,454 | 705 |
| Total operating expenses | 129,934 | 112,012 |
| Operating income (loss) | 130,899 | 101,080 |
| Other (income) expense: | | |
| Interest expense, net | 18,005 | 32,241 |
| Foreign currency (gain) loss | 4,493 | (835) |
| Other (income) expense, net (a) | 7,666 | 8,668 |
| Total other expense | 30,164 | 40,074 |
| Income (loss) before income taxes, equity in income (loss) of investees and minority interest | 100,735 | 61,006 |
| Provision (benefit) for income taxes(b) | 24,716 | 7,078 |
| Equity in income (loss) of investees (c) | -- | (17,291) |
| Minority interest (d) | (559) | 6,644 |
| Net income (loss) (b) | $ 75,460 | $ 43,281 |
| Basic net income (loss) per common share | $ 0.71 | $ 0.52 |
| Diluted net income (loss) per common share | $ 0.70 | $ 0.52 |
| Pro Forma Data (Unaudited) (b): | | |
| Historical income before income taxes, equity in income (loss) of ASI and minority interest | $ 100,735 | $ 61,006 |
| Pro forma provision for income taxes | 29,216 | 10,691 |
| Pro forma income before equity in income (loss) of investees and minority interest | 71,519 | 50,315 |
| Historical equity in income (loss) of investees | -- | (17,291) |
| Historical minority interest | 559 | (6,644) |
| Pro forma net income | $ 70,960 | $ 39,668 |
| Basic pro forma net income per common share | $ 0.67 | $ 0.48 |
| Diluted pro forma net income per common share | $ 0.66 | $ 0.48 |
| Shares used in computing basic pro forma net income per common share | 106,221 | 82,610 |
| Shares used in computing pro forma diluted net income per common share | 116,596 | 82,610 |

| | | | |
|---|---|---|---|
| OTHER FINANCIAL DATA: | | | |
| Depreciation and amortization including debt issue costs.... | $ 119,239 | $ 81,864 | |
| Capital expenditures..... | 107,889 | 178,990 | |



| | DECEMBER 31, | | | |
|---|---|---|---|---|
| | 2001 | 2000 | 1999 | |
| | | | (IN THOUSANDS) | |
| BALANCE SHEET DATA: | | | | |
| Cash and cash equivalents..... | $ 200,057 | $ 93,517 | $ 98,045 | $ |
| Short term investments..... | -- | -- | 136,595 | |
| Working capital (deficit)..... | 160,856 | 102,586 | 194,352 | |
| Total assets..... | 3,223,318 | 3,393,284 | 1,755,089 | |
| Total long-term debt..... | 1,771,453 | 1,585,536 | 687,456 | |
| Total debt, including short-term borrowings and current portion of long-term debt..... | 1,826,268 | 1,659,122 | 693,921 | |
| Stockholders' equity..... | 1,008,717 | 1,314,834 | 737,741 | |

(a) In 1999 we recognized a pre-tax loss of $17.4 million as a result of the early conversion of $153.6 million principal amount of our 5 3/4% convertible subordinate notes due 2003.

(b) Prior to our reorganization in April 1998, our predecessor, Amkor Electronics, Inc. ("AEI"), elected to be taxed as an S Corporation under the Internal Revenue Code of 1986 and comparable state tax laws. As a result AEI did not recognize any provision for federal income tax expense during the periods presented. The pro forma provision for income taxes reflects the U.S. federal income taxes that would have been recorded if AEI had been a C Corporation during these periods.

(c) In 1997, we recognized a loss of $17.3 million resulting principally from the impairment of value of our prior investment in ASI, which we sold in February 1998.

(d) In 2001, minority interest reflects Toshiba's 40% ownership interest in Amkor Iwate in Japan as well as shares that we did not acquire in connection with our two acquisitions in Taiwan. In 1997, minority interest reflects ASI's 40% interest in the earnings of Amkor/Anam Pilipinas, Inc. ("AAP"), one of our subsidiaries in the Philippines. We purchased ASI's interest in AAP with a portion of the proceeds from our initial public offering in May 1998.



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

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

The following discussion contains forward-looking statements within the meaning of the federal securities laws, including but not limited to statements regarding: (1) the anticipated trends in and condition of the semiconductor industry, (2) the anticipated growth in the market for our products, (3) our anticipated capital expenditures and financing needs, (4) our expected capacity utilization rates, (5) our belief as to our future operating performance, (6) statements regarding the future of our relationship with ASI and (7) other statements that are not historical facts. In some cases, you can identify forward-looking statements by terminology such as "may," "will," "should," "expects," "plans," "anticipates," "believes," "estimates," "predicts," "potential," "continue" or the negative of these terms or other comparable terminology. Because such statements include risks and uncertainties, actual results may differ materially from those anticipated in such forward-looking statements as a result of certain factors, including those set forth in the following discussion as well as in "Risk Factors that May Affect Future Operating Performance" and "Business." The following discussion provides information and analysis of our results of operations for the three years ended December 31, 2001 and our liquidity and capital resources. You should read the following discussion in conjunction with "Selected Historical Consolidated Financial Data" and our consolidated financial statements and the related notes, included elsewhere in this annual report.

Amkor is the world's largest subcontractor of semiconductor packaging and test services. The company has built a leading position through:

- one of the industry's broadest offerings of packaging and test services,

- expertise in the development and implementation of packaging and test technology,

- long-standing relationships with customers, including many of the world's leading semiconductor companies, and

- expertise in high-volume manufacturing.

We also market the output of fabricated semiconductor wafers provided by a wafer fabrication foundry owned and operated by Anam Semiconductor, Inc. (ASI). The semiconductors that we package and test for our customers ultimately become components in electric systems used in communications, computing, consumer, industrial, automotive and military applications. Our customers include, among others, Agere Systems, Inc., Atmel Corporation, Intel Corporation, LSI Logic Corporation, Motorola, Inc., Philips Electronics N.V., ST Microelectronics PTE, Sony Semiconductor Corporation, Texas Instruments, Inc. and Toshiba Corporation. The outsourced semiconductor packaging and test market is very competitive. We also compete from time to time with many of our vertically integrated customers, who may decide to outsource or not outsource certain of their packaging and test requirements.

Our business is tied to market conditions in the semiconductor industry, which is highly cyclical. Based on industry estimates, from 1978 through 2001, there were 11 years when semiconductor industry growth was 10% or less and 13 years when growth was 19% or greater. The historical trends in the semiconductor industry are not necessarily indicative of the results of any future period. The strength of the semiconductor industry is dependent primarily upon the strength of the computer and communications systems markets. Since 1970, the semiconductor industry declined in 1975, 1985, 1996, 1998 and most recently beginning in the fourth quarter of 2000 and continuing through 2001. The weakness in the semiconductor industry caused an estimated decline of 32% for

2001. Industry analysts are forecasting little or no growth for 2002. Our customers have reduced their forecasts as a result of the broad weakness in the semiconductor industry, uncertainty about end market demand, and excess inventory across the semiconductor industry supply chain. Although we have noted some recent improvement in our customers' forecasted demand, the significant uncertainty throughout the industry is hindering the visibility throughout the supply chain and that lack of visibility makes it difficult to forecast the recovery of the semiconductor industry. The weaker demand is expected to continue to adversely impact our results into 2002, however, we expect to return to profitability in 2002.

During the current industry downturn, our business strategy has been to move forward with geographic diversification, invest in next-generation technology, and enhance our financial flexibility. We commenced operations in Japan in connection with our venture with Toshiba, constructed an assembly and test facility in China and consummated two acquisitions in Taiwan.



We continue to evaluate additional acquisition and investment opportunities. Although we have significantly reduced our capital expenditure plans, we are committed to investing in new technologies primarily to support the development of our Flip Chip, System-in-Package and high-end BGA capabilities. We raised $500.0 million of 9.25% senior notes due 2008 and $250.0 million of 5.75% convertible subordinated notes due 2006. Of the combined net proceeds of $733.0 million, we used $509.5 million to repay amortizing term loans. The balance of the net proceeds supports our expansion efforts and general corporate and working capital purposes. During November 2001 we used $125 million of our cash to prepay amounts outstanding under our Term B loans. Our cash and cash equivalent balance as of December 31, 2001 was $200.1 million.

During the second half of the year ended December 31, 2000, we significantly increased our operating costs to service the demand we were experiencing and expecting. Beginning in 2001, we implemented numerous cost reduction initiatives as a significant part of our financial strategy to partially mitigate the impact of the industry downturn on our results of operations and cash flows. Our cost reduction efforts included reducing our worldwide headcount, reducing compensation levels, shortening work schedules, improving factory efficiencies, negotiating cost reductions with our vendors and closing non-critical manufacturing support facilities. We reduced our headcount in the Philippines and Korea by over 3,000 employees or 14% from the employment levels at December 31, 2000. Labor costs in the Philippines and Korea were reduced by $14.8 million or 27% for the three months ended December 31, 2001 as compared with the three months ended December 31, 2000. We reduced our administrative headcount, excluding the effects of acquisitions, by 22% from the employment levels at December 31, 2000. Additionally, we estimate that for the three months ended December 31, 2001 we reduced our U.S. based administrative overhead by an estimated $9 million as compared with the three months December 31, 2000.

Prices for packaging and test services and wafer fabrication services have declined over time. Historically we have been able to partially offset the effect of price declines by successfully developing and marketing new packages with higher prices, such as advanced leadframe and laminate packages, negotiating lower prices with our material vendors, and driving engineering and technological changes in our packaging and test processes which resulted in reduced manufacturing costs. We cannot assure you that we will be able to offset any such price declines in the future.

The weakness in the semiconductor industry adversely affected the demand for the wafer output from ASI's foundry. Beginning in the fourth quarter of 2000 and throughout 2001, demand for wafers deteriorated significantly. Historically we derived a substantial portion of our wafer fabrication service revenues from Texas Instruments. Wafers sales to Texas Instruments for 2001 decreased 52.8% as compared with 2000. Although we have noted significant recent improvement in our customers' forecasted demand, we expect our wafer fabrication services results and ASI's operating results will continue to be adversely impacted into 2002, however, recovery is expected by the end of 2002. ASI's results also impact us through our recording of our share of their results in accordance with the equity method of accounting.

OVERVIEW OF OUR HISTORICAL RESULTS

Our Historical Relationship with ASI and the Financial Impact of Our Acquisition of K1, K2 and K3 and Investment in ASI on Our Results of Operations

Historically we performed packaging and test services at our factories in the Philippines and subcontracted for additional services with ASI which operated four packaging and test facilities in Korea. In the fourth quarter of 1998 ASI's business had been severely affected by the economic crisis in Korea. ASI was part of the Korean financial restructuring program known as the "Workout" program beginning in October 1998. The Workout program was the result of an accord among Korean financial institutions to assist in the restructuring of Korean business enterprises. The process involved negotiation between the related banks and ASI, and did not involve the judicial system. The Workout process restructured the terms of ASI's significant bank debt. Although ASI's operations continued uninterrupted during the process, it caused concern among our customers should the company lose access to ASI's services. As a result, we decided to acquire ASI's packaging and test operations to ensure continued access to the manufacturing services previously provided by ASI. During the course of negotiations for the purchase of the packaging and test operations, both ASI management and the bank group presented a counter-proposal whereby, in addition to the purchase of the packaging and test operations, we would also make an equity investment in ASI. The bank group and ASI management proposed this structure because they believed the equity investment would reflect a level of commitment from us to continue our ongoing business relationship with ASI after the sale of its packaging and test operations to Amkor.



In May 1999, we acquired K4, one of ASI's packaging and test facilities, and in May 2000 we acquired ASI's remaining packaging and test facilities, K1, K2 and K3. With the completion of our acquisition of K1, K2 and K3, we no longer depend upon ASI for packaging or test services, but we continue to market ASI's wafer fabrication services. In May 2000 we made a commitment to a $459.0 million equity investment in ASI, and fulfilled this commitment in installments taking place over the course of 2000. In connection with the May 2000 transactions with ASI, we obtained independent appraisals to support the value and purchase price of the each the packaging and test operations and the equity investment. As of December 31, 2001, we had invested a total of $500.6 million in ASI including an equity investment of $41.6 million made in October 1999. We owned as of December 31, 2001 42% of the outstanding voting stock of ASI and report ASI's results in our financial statements through the equity method of accounting.

There was not a significant change in our revenues as a result of the acquisitions, because we historically sold substantially all of the output of those facilities. Our gross margins on sales of services performed by ASI were set in accordance with supply agreements with ASI and were generally lower than

our gross margins of services performed by our factories in the Philippines. Effective with our May 2000 acquisition of K1, K2 and K3, we no longer pay service charges to ASI for packaging and test services. Our gross margins were favorably impacted by the termination of the supply agreement, but such favorable impact was partially offset by the additional operating costs that were previously borne by ASI and the amortization of goodwill and acquired intangibles.

Our interest expense increased due to the total debt we incurred to finance the $950.0 million acquisition of K1, K2 and K3 and our $459.0 million investment in ASI. Our overall effective tax rate decreased due to a 100% tax holiday for seven years, with an anticipated expiration in 2006, on K1, K2 and K3's results of operations. Upon the expiration of the 100% tax holiday, we will have a 50% tax holiday for three additional years.

Financial Impact of Our Venture with Toshiba Corporation

As of January 1, 2001, Amkor Iwate Corporation commenced operations with the acquisition of a packaging and test facility at a Toshiba factory located in the Iwate prefecture in Japan. Amkor Iwate provides packaging and test services principally to Toshiba's Iwate factory under a long-term supply agreement terminating two years subsequent to our acquisition of Toshiba's ownership interest in Amkor Iwate. We currently own 60% of Amkor Iwate and Toshiba owns the balance of the outstanding shares. Within three years we are required to purchase the remaining 40% of the outstanding shares of Amkor Iwate from Toshiba. The share purchase price will be determined based on the performance of the venture during the three-year period but cannot be less than 1 billion Japanese yen and cannot exceed 4 billion Japanese yen ($7.6 million to $30.4 million based on the spot exchange rate at December 31, 2001).

The results of Amkor Iwate have been included in the accompanying consolidated financial statements since January 2001. Our revenues increased as a result of the packaging and test services performed by Amkor Iwate for Toshiba under the supply agreement. Gross margins as a percentage of net revenues were negatively impacted given the terms of the supply agreement provide for gross margins lower than our historical gross margins on services performed by our other factories. Operating expenses increased as a result of the additional administrative expenses incurred by Amkor Iwate and the amortization of $21.9 million of goodwill and acquired intangibles. Interest expense increased as a result of the debt incurred to finance the purchase of the packaging and test assets from Toshiba.

Financial Impact of Our Acquisitions of Taiwan Semiconductor Technology Corporation and Sampo Semiconductor Corporation

In July 2001, we acquired, in separate transactions, Taiwan Semiconductor Technology Corporation (TSTC) and Sampo Semiconductor Corporation (SSC) in Taiwan. The results of TSTC and Sampo have been included in the accompanying consolidated financial statements since the acquisition dates. Our results of operations were not significantly impacted by these acquisitions. In accordance with the new accounting standards related to purchase business combinations and goodwill, we recorded intangible assets, principally goodwill, of $23.8 million as of the acquisition date that is nonamortizable.

RESULTS OF OPERATIONS

The following table sets forth certain operating data as a percentage of net revenues for the periods indicated:

| | YEAR ENDED DECEMBER 31, | |
|---|---|---|
| | 2001 | 2000 |
| Net revenues | 100.0% | 100.0% |
| Gross profit | 4.6 | 25.3 |
| Operating income (loss) | (17.7) | 13.5 |
| Income (loss) before income taxes, equity in income (loss) of investees and minority interest | (28.3) | 8.3 |
| Net income (loss) | (29.7) | 6.5 |

Year ended December 31, 2001 Compared to Year ended December 31, 2000

Net Revenues. Net revenues decreased $869.4 million, or 36.4%, to $1,517.9 million in 2001 from $2,387.3 million in 2000. Packaging and test net revenues decreased 33.5% to $1,336.7 million in 2001 from $2,009.7 million in 2000. Wafer fabrication net revenues decreased 52.0% to $181.2 million in 2001 from $377.6 million in 2000.

The decrease in packaging and test net revenues, excluding the impact of acquisitions, was primarily attributable to a 37.3% decrease in overall unit volumes in 2001 compared to 2000. This overall unit volume decrease was driven by a 34.6% unit volume decrease for advanced leadframe and laminate packages and a 39.4% decrease in our traditional leadframe business as a result of a broad based decrease in demand for semiconductors. Average selling prices across all product lines eroded by approximately 13.9% for 2001 as compared to 2000. Partially offsetting the decrease in overall unit volumes and average selling price erosion was the benefit of $231.0 million in net revenues related to acquisitions which were completed since January 1, 2001.

The decrease in wafer fabrication net revenues was primarily attributed to a 52.8% decrease in sales to Texas Instruments in 2001 as compared with 2000. Texas Instruments' demand for our services declined as a result of the utilization of excess inventory supply and a decline in end market demand for cellular phones.

Gross Profit. Gross profit decreased $535.3 million, or 88.5%, to $69.8 million in 2001 from $605.1 in 2000. Our cost of revenues consists principally of costs of materials, labor and depreciation. Because a substantial portion of our costs at our factories is fixed, significant increases or decreases in capacity utilization rates have a significant effect on our gross profit. As a result of our May 2000 acquisition of K1, K2 and K3 and our 2001 acquisitions in Japan and Taiwan, we substantially increased our fixed costs.

Gross margins as a percentage of net revenues decreased 81.8% to 4.6% of net revenues in 2001 as compared to 25.3% of net revenues in 2000 principally as a result the following:

- Decreasing unit volumes in 2001 at our factories in Korea and the Philippines that caused an approximate 41% decline in gross margins as a result of the factories' substantial fixed and labor costs to be distributed over a smaller revenue base. This decline in gross margins is

net of the benefit of our 2001 cost reduction initiatives to reduce labor and other factory overhead costs.

- Average selling price erosion across our product lines caused an estimated 39% decline in gross margins.

- Our acquisitions in 2001 contributed approximately 10% to the decline in gross margin. This is principally attributed to the long-term supply agreement between Amkor Iwate and Toshiba, which provides for packaging and test services to be performed on a cost plus basis which produces a resulting gross margin less than our historical margins in 2000.

- The negative impacts on gross margins were partially offset by the benefit of stable gross margins with respect to our wafer fabrication services as compared to 2000.



As a result of the decline in the semiconductor industry and the reductions of our customers' forecasted demand, our provision for excess and obsolete inventory increased $7.9 million to a total provision of $17.9 million in 2001 as compared to $10.0 million in 2000. During 2001, we wrote-off and contemporaneously disposed of $10.6 million of inventory. In general we order raw materials based on the customers' forecasted demand and we do not maintain any finished goods inventory. If our customers change their forecasted requirements and we are unable to cancel our raw materials order or if our vendors require that we order a minimum quantity that exceeds the current forecasted demand, we will experience a build-up in raw material inventory. We will either seek to recover the cost of the materials from our customers or utilize the inventory in production. However, we may not be successful in recovering the cost from our customers or being able to use the inventory in production, which we would consider as part of our reserve estimate. Our reserve for excess and obsolete inventory is based on forecasted demand we receive from our customers. When a determination is made that the inventory will not be utilized in production it is written-off and disposed.

Selling, General and Administrative Expenses. Selling, general and administrative expenses increased $7.6 million, or 3.9%, to $200.2 million, or 13.2% of net revenues, in 2001 from $192.6 million, or 8.1% of net revenues, in 2000. The increase in these costs was due to:

- Increased costs of $16.0 million related to the acquisitions in Japan and Taiwan, the commencement of operations in China and the increased staffing of our Japanese sales force;

- An overall decrease of $6.6 million in our factories in Korea and the Philippines as a result of our cost reduction initiatives in the first and second quarters of 2001 that were partially offset by the increased selling, general and administrative costs assumed in connection our May 2000 acquisition of K1, K2 and K3; and

- Decreased costs of $1.8 million principally related our U.S. based administrative overhead cost reduction initiatives in the first and second quarters of 2001.

Research and Development. Research and development expenses increased $12.7 million to $38.8 million, or 2.6% of net revenues, in 2001 from $26.1 million, or 1.1% of net revenues, in 2000. Increased research and development expenses resulted from the acquisition of the packaging and test research and development group within ASI related to the K1, K2 and K3 transaction. Our research and development efforts support our customers' needs for smaller

packages and increased functionality. We continue to invest our research and development resources to continue the development of our Flip Chip interconnection solutions, our System-in-Package technology, that uses both advanced packaging and traditional surface mount techniques to enable the combination of technologies in a single package, and our Chip Scale packages that are nearly the size of the semiconductor die.

Amortization of Goodwill and Other Acquired Intangibles. Amortization of goodwill and other acquired intangibles increased $21.9 million to $85.0 million from $63.1 million in 2000 principally as a result of our May 2000 acquisition of K1, K2 and K3 and to a lesser extent our January 2001 acquisition of Amkor Iwate.

Loss on Disposal of Fixed Assets. Loss on disposal of fixed assets increased $13.1 million to $14.5 million from $1.4 million in 2000 principally as a result of the disposition of production equipment and construction materials in Korea.

Other (Income) Expense. Other expenses, net increased $36.8 million, to $161.3 million, or 10.8% of net revenues, in 2001 from $124.5 million, or 5.2% of net revenues, in 2000. The net increase in other expenses was primarily a result of a net increase in interest expense of $44.3 million. The increased interest expense resulted from the financing related to our May 2000 acquisition of K1, K2 and K3 and our investment in ASI and our 2001 financing activities which are more fully detailed in our discussion of "Liquidity and Capital Resources." Net interest expense for 2001 also included $13.4 million of unamortized deferred debt issuance costs expensed in connection with the repayment in February, May and November 2001 of term loans outstanding under our secured bank facility and the reduction of the revolving line of credit commitment. Other expenses were favorably impacted by a change in foreign currency gains and losses of $3.9 million for 2001 as compared with the corresponding period in the prior year.

Provision (Benefit) for Income Taxes. Our effective tax rate in 2001 and 2000 was (19.0%) and 11.3%, respectively. The change in the effective tax rate in 2001 was due to operating losses in jurisdictions for which there is no offsetting tax benefit from tax holidays as well as operating losses in jurisdictions with higher corporate income tax rates. The tax returns for open



years are subject to changes upon final examination. Changes in the mix of income from our foreign subsidiaries, expiration of tax holidays and changes in tax laws and regulations could result in increased effective tax rates for us in the future.

Equity in Loss of Investees. Our earnings included our share of losses in our equity affiliates, principally ASI, in 2001 of $65.2 million compared to our share of their income in 2000 of $3.9 million. Our earnings also included the amortization of the excess of the cost of our investment above of our share of the underlying net assets of $35.5 million and $24.9 million in 2001 and 2000, respectively. Our investment in ASI increased to 42% as of October 2000 from 40% as of September 2000, 38% as of May 2000 and 18% as of October 1999.

Year Ended December 31, 2000 Compared to Year Ended December 31, 1999

Net Revenues. Net revenues increased $477.3 million, or 25.0%, to $2,387.3 million in 2000 from $1,910.0 million in 1999. Packaging and test net revenues increased 24.3% to $2,009.7 million in 2000 from $1,617.2 million in 1999. Wafer fabrication net revenues increased to $377.6 million in 2000 from $292.7 million

in 1999.

The increase in packaging and test net revenues was primarily attributable to a significant increase in unit volumes. Overall unit volume increased approximately 30.3% in 2000 compared to 1999. This overall unit volume increase was driven by a 30.2% unit volume increase for advanced and laminate packages as a result of a broad based demand for such packages. Unit volumes in our traditional lead frame business increased 20.0%. In addition, changes in the mix of products we are selling, to more advanced and laminate packages, also provided an offset to overall price erosion. Offsetting the growth in unit volumes and favorable changes in product mix was an erosion of the average selling prices across all product lines of approximately 7% for 2000 as compared to 1999. In addition, we believe revenues for the first half of 2000 were adversely effected by advanced wafer capacity limitations at some of our customer locations, a wafer production shift by one of our largest customers and the loss of business in our P3 factory due to a laminate contamination issue all of which occurred in the second quarter of 2000.

The increase in wafer fabrication net revenues represents the expanded capacity of ASI's wafer fabrication facility from 18,000 wafers per month at the end of 1999 to 26,600 wafers per month by the end of 2000. The capacity utilization of ASI's wafer foundry was approximately 47% in December 2000 as compared with a capacity utilization of approximately 89% for all of 2000.

Gross Profit. Gross profit increased $256.0 million, or 73.3%, to $605.1 million, or 25.3% of net revenues, in 2000 from $349.2 million, or 18.3% of net revenues, in 1999.

Gross margins were positively impacted by:

- Increasing unit volumes in 2000, which permitted better absorption of our factories' substantial fixed costs, resulting in a lower manufacturing cost per unit and improved gross margins; and

- Improved gross margin on revenues from the output of K1, K2 and K3 following our acquisition in May 2000 and the benefit of a full year of improved margin on revenues from the output of K4 following our May 1999 acquisition of K4.

The positive impact on gross margins was partially offset by:

- Average selling price erosion across our product lines; and

- Significant levels of capacity expansion and new product line introductions in the Philippines and Korea that have a tendency to lower the gross margins until a base level of customers are qualified.



Selling, General and Administrative Expenses. Selling, general and administrative expenses increased $48.1 million, or 33.3%, to $192.6 million, or 8.1% of net revenues, in 2000 from $144.5 million, or 7.6% of net revenues, in 1999. The increase in these costs was due to:

- Increased costs related to our Korean factories primarily as a result of the assumption of the general and administrative expenses of K1, K2 and K3 following our acquisition in May 2000 as well as the assumption of a full year or such expenses for K4 which was acquired in May 1999; and

- Increased headcount and related personnel costs within our sales, engineering support and System-in-Package groups.

Research and Development. Research and development expenses increased $14.6 million to $26.1 million, or 1.1% of net revenues, in 2000 from $11.4 million, or 0.6% of net revenues, in 1999. Increased research and development expenses resulted from increased headcount and general development activities, primarily the expansion of our Chandler, Arizona-based research facility and the acquisition of the packaging and test research and development group within ASI related to the K1, K2 and K3 transaction. Our research and development efforts support our customers needs for smaller packages and increased functionality. We continue to invest our research and development resources to continue the development of our Flip Chip interconnection solutions, our System-in-Package technology, that uses both advanced packaging and traditional surface mount techniques to enable the combination of technologies in a single chip, and our Chip Scale packages that are nearly the size of the semiconductor die.

Amortization of Goodwill and Other Acquired Intangibles. Amortization of goodwill and other acquired intangibles increased $46.0 million to $63.1 million from $17.1 million in 1999. Increased amortization expense is a result of our May 2000 acquisition of K1, K2 and K3.

Other (Income) Expense. Other expenses increased $55.6 million, to $124.6 million, or 5.2% of net revenues, in 2000 from $69.0 million, or 3.6% of net revenues, in 1999. The net increase in other expenses was primarily a result of an increase in interest expense of $74.5 million. The increased interest expense resulted from the issuance of $258.8 million of convertible subordinated notes, $750.0 million of secured bank debt and an additional draw of $50.0 million from the revolving credit line to fund our May 2000 acquisition of K1, K2 and K3 and our investment in ASI. Additionally, the increased interest expense resulted from having a full year of interest expense in 2000 related to the May 1999 issuance of senior and senior subordinated notes to fund the K4 acquisition. During the fourth quarter of 1999 and continuing into 2000, we completed an early conversion of a portion of the debt outstanding under the 5.75% convertible subordinated notes due May 2003. Other expenses in 2000 and 1999 included a $0.3 million and $17.4 million non-cash charge, respectively, associated with the early conversion of that debt. Other expenses were favorably impacted by a savings of $3.1 million in accounts receivable securitization charges as a result of the termination of the agreement at the end of March 2000.

Income Taxes. Our effective tax rate in 2000 and 1999 was 11.3% and 25.3%, respectively. The decrease in the effective tax rate in 2000 was due to the higher operating profits at our factories that operate with tax holidays. The tax returns for open years are subject to changes upon final examination. Changes in the mix of income from our foreign subsidiaries, expiration of tax holidays and changes in tax laws and regulations could result in increased effective tax rates for us in the future.

Equity in Loss of Investees. Our earnings included equity in income of ASI in 2000 and 1999 of $4.9 million and $0.5 million, respectively, excluding the amortization of the excess of the cost of our investment above of our share of the underlying net assets of $24.9 million and $2.2 million in 2000 and 1999, respectively. Our investment in ASI increased to 42% as of October 2000 from 40% as of September 2000, 38% as of May 2000 and 18% as of October 1999.

QUARTERLY RESULTS

The following table sets forth our unaudited consolidated financial data, including as a percentage of our net revenues, for the last eight fiscal quarters ended December 31, 2001. Our results of operations have varied and may continue to vary from quarter to quarter and are not necessarily indicative of

the results of any future period. The results of the 2001 acquisitions of Amkor Iwate Corporation, Sampo Semiconductor Corporation and the consolidated results of Taiwan Semiconductor Technology Corporation (a prior equity investment) are included in the consolidated financial data from the



date of the acquisitions. Also, the results of K1, K2 and K3 packaging and test factories acquired from ASI in May 2000 are included in the consolidated financial data from the date of the acquisition.

We believe that we have included in the amounts stated below all necessary adjustments, consisting only of normal recurring adjustments, for a fair presentation of our selected quarterly data. You should read our selected quarterly data in conjunction with our consolidated financial statements and the related notes, included elsewhere in this annual report.

Our net revenues, gross profit and operating income are generally lower in the first quarter of the year as compared to the fourth quarter of the preceding year primarily due to the combined effect of holidays in the U.S. and Asia. Semiconductor companies in the U.S. generally reduce their production during the holidays at the end of December which results in a significant decrease in orders for packaging and test services during the first two weeks of January. In addition, we typically close our factories in the Philippines for holidays in January, and we and ASI close our factories in Korea for holidays in February.

We have presented the gains and losses from the disposal of fixed assets as a separate line item above operating income. Previously reported amounts have been reclassified from other (income) expense to conform with the current presentation.

| | QUARTER ENDED | | | |
|---|---|---|---|---|
| | DEC. 31, 2001 | SEPT. 30, 2001 | JUNE 30, 2001 | MARCH 200 |
| | (IN THOUSANDS EXCEPT PER SHARE DATA) | | | |
| Net revenues | $ 352,354 | $ 334,716 | $ 350,169 | $480,6 |
| Cost of revenues--including purchases from ASI | 360,713 | 346,355 | 342,158 | 398,8 |
| Gross profit | (8,359) | (11,639) | 8,011 | 81,7 |
| Operating expenses: | | | | |
| Selling, general and administrative | 47,012 | 47,847 | 51,365 | 53,9 |
| Research and development | 10,365 | 9,784 | 8,135 | 10,5 |
| Loss on disposal of assets | 9,861 | 3,132 | 398 | 1,1 |
| Amortization of goodwill and other acquired intangibles | 21,263 | 21,214 | 20,573 | 21,9 |
| Total operating expenses | 88,501 | 81,977 | 80,471 | 87,5 |
| Operating income (loss) | $ (96,860) | $ (93,616) | $ (72,460) | $ (5,7 |
| Net income (loss) | $(136,612) | $(128,744) | $(116,291) | $(69,2 |

| | | | | |
|---|---|---|---|---|
| Basic net income (loss) per common share..... | $ (0.85) | $ (0.80) | $ (0.76) | $ (0. |
| Diluted net income (loss) per common share..... | $ (0.85) | $ (0.80) | $ (0.76) | $ (0. |

| | QUARTER ENDED | | |
|---|---|---|---|
| | DEC. 31, 2000 | SEPT. 30, 2000 | JUNE 30, 2000 |
| | (IN THOUSANDS EXCEPT PER SHARE DATA) | | |
| Net revenues..... | $636,871 | $ 648,576 | $ 547,036 |
| Cost of revenues--including purchases from ASI..... | 465,419 | 469,518 | 407,441 |
| Gross profit..... | 171,452 | 179,058 | 139,595 |
| Operating expenses: | | | |
| Selling, general and administrative..... | 53,759 | 50,083 | 46,884 |
| Research and development..... | 8,976 | 8,838 | 4,872 |
| Loss on disposal of assets..... | -- | 343 | 665 |
| Amortization of goodwill and other acquired intangibles..... | 20,925 | 20,353 | 15,440 |
| Total operating expenses..... | 83,660 | 79,617 | 67,861 |
| Operating income (loss)..... | $ 87,792 | $ 99,441 | $ 71,734 |
| Net income (loss)..... | $ 40,890 | $ 45,171 | $ 30,936 |
| Basic net income (loss) per common share..... | $ 0.27 | $ 0.30 | $ 0.21 |
| Diluted net income (loss) per common share..... | $ 0.26 | $ 0.28 | $ 0.20 |

| | QUARTER ENDED | | | |
|---|---|---|---|---|
| | DEC. 31, 2001 | SEPT. 30, 2001 | JUNE 30, 2001 | MARCH 200 |
| Net revenues..... | 100.0% | 100.0% | 100.0% | 100. |
| Cost of revenues -- including purchases from ASI | 102.4 | 103.5 | 97.7 | 83. |
| Gross profit..... | (2.4) | (3.5) | 2.3 | 17. |
| Operating expenses: | | | | |
| Selling, general and administrative..... | 13.3 | 14.3 | 14.7 | 11. |
| Research and development..... | 2.9 | 2.9 | 2.3 | 2. |
| Loss on disposal of assets..... | 2.8 | 0.9 | 0.1 | 0. |
| Amortization of goodwill and other acquired intangibles..... | 6.1 | 6.4 | 5.9 | 4. |
| Total operating expenses..... | 25.1 | 24.5 | 23.0 | 18. |

| | | | | |
|---|---|---|---|---|
| Operating income (loss)..... | (27.5)% | (28.0)% | (20.7)% | (1. |
| Net income (loss)..... | (38.8)% | (38.5)% | (33.2)% | (14. |

| | QUARTER ENDED | | | |
|---|---|---|---|---|
| | DEC. 31, 2000 | SEPT. 30, 2000 | JUNE 30, 2000 | M |