FEDERAL SIGNAL CORP /DE/
Form DEFA14A
April 08, 2009

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
SCHEDULE 14A
(Rule 14a-101)

INFORMATION REQUIRED IN PROXY STATEMENT

SCHEDULE 14A INFORMATION
Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934

Filed by the Registrant þ
Filed by a Party other than the Registrant o

Check the appropriate box:
o Preliminary Proxy Statement
o Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
o Definitive Proxy Statement
þ Definitive Additional Materials
o Soliciting Material Pursuant to §240.14a-12

FEDERAL SIGNAL CORPORATION
(Name of Registrant as Specified In Its Charter)
(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

þ No fee required.
o Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:
(2) Aggregate number of securities to which transaction applies:
(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):
(4) Proposed maximum aggregate value of transaction:
(5) Total fee paid:

o Fee paid previously with preliminary materials.
o Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:
(2) Form, Schedule or Registration Statement No.:
(3) Filing Party:
(4) Date Filed:

News From

REGENCY TOWERS, 1415 W. 22ND ST., OAK BROOK, ILLINOIS 60523

FOR IMMEDIATE RELEASE

FEDERAL SIGNAL FILES INVESTOR PRESENTATION
Recommends Shareholders Vote The WHITE Proxy Card
To Elect Federal Signal s Board Nominees

OAK BROOK, Ill., April 8, 2009 Federal Signal Corporation (NYSE: FSS), a leader in advancing security and well-being, today announced that it has filed an investor presentation with the Securities and Exchange Commission (SEC) in connection with the Company s 2009 Annual Meeting of Stockholders to be held on April 29, 2009. Federal Signal s Board of Directors unanimously recommends that stockholders elect the Company s highly-qualified nominees Jim Goodwin, Joe Wright, and Bill Osborne, the Company s newly-hired president and chief executive officer by telephone, Internet or by signing, dating and returning the **WHITE** proxy card today.

The investor presentation is available under the Investors section of the Company s website at: http://www.federalsignal.com and at the SEC s website at http://www.sec.gov.

Highlights of the presentation include:

Þ Federal Signal has an experienced, independent and qualified Board and management team, committed to executing its strategic plan and enhancing value for all stockholders

Þ Over the last year, Federal Signal s Board of Directors and management team has undertaken a series of actions to position the Company for sustainable and profitable growth and drive stockholder value, including:

- Appointed a new executive management team led by Bill Osborne, president and chief executive officer, and Bill Barker, senior vice president and chief financial officer
- Strengthened the balance sheet by divesting non-core assets
- Developed a two-pronged strategy to deliver consistent, profitable growth; enhance earnings and cash flow; and create stockholder value

Þ Federal Signal s Board has a demonstrated commitment to strong corporate governance

Þ After carefully considering a number of individuals, including Warren Kanders nominees, Federal Signal s Board unanimously determined that Jim Goodwin, Bill Osborne and Joe Wright are the directors that would best serve the interests of all Federal Signal stockholders

---

- Þ Warren Kanders, who was not selected as CEO, and his two other nominees add nothing new to Federal Signal and, if elected, we believe would work only to advance Kanders self-serving agenda and not the interests of all Federal Signal stockholders

Federal Signal shareholders who have any questions or need assistance voting their **WHITE** proxy card should contact Innisfree M&A Incorporated, which is assisting the Company in this matter, toll-free at (877) 800-5186.

About Federal Signal

Federal Signal Corporation (NYSE: FSS) enhances the safety, security and well-being of communities and workplaces around the world. Founded in 1901, Federal Signal is a leading global designer and manufacturer of products and total solutions that serve municipal, governmental, industrial and institutional customers. Headquartered in Oak Brook, Ill., with manufacturing facilities worldwide, the Company operates three groups: Safety and Security Systems, Environmental Solutions and Fire Rescue. For more information on Federal Signal, visit: http://www.federalsignal.com.

Forward-Looking Language

This news release contains various forward-looking statements as of the date hereof and Federal Signal undertakes no obligation to update these statements regardless of new developments or otherwise. Statements in this news release that are not historical are forward-looking statements any may be impacted by certain risks and uncertainties. These risks and uncertainties, some of which are beyond Federal Signal s control, include but are not limited to the cyclical nature of Federal Signal s industrial and municipal markets, technological advances by competitors, Federal Signal s ability to improve its operating performance, risks associated with the execution of new product or service introductions, increased warranty and product liability expenses, risks associated with supplier, dealer and other partner alliances, changes in cost competitiveness including those resulting from foreign currency movements, disruptions in the supply of parts or components from sole source suppliers and subcontractors, retention of key employees and general changes in the competitive or economic environment.

Important Information

In connection with the solicitation of proxies, on March 30, 2009 Federal Signal filed with the SEC and on March 31, 2009 mailed to stockholders, a definitive proxy statement and a WHITE proxy card for its 2009 annual meeting of stockholders. Stockholders may obtain Federal Signal s proxy statement, a WHITE proxy card and any amendments or supplements and other documents for free by contacting Innisfree M&A Incorporated toll-free at (877) 800-5186.

# # #

Contacts:

William G. Barker III	Matthew Sherman / Tim Lynch
Senior Vice President & Chief Financial Officer	Joele Frank, Wilkinson Brimmer Katcher
Federal Signal Corporation	212-355-4449
630-954-2000	msherman@joelefrank.com /
wbarker@federalsignal.com	tlynch@joelefrank.com

Employee stock options issued by subsidiaries
(2,993) (2,993) -
Diluted EPS

Income attributable to shareholders of the parent plus effect of potential dilutive common stock
18,820,652 17,582,151 5,603,528 3.36 3.14
Year ended December 31, 2007

Basic EPS

Income attributable to shareholders of the parent
13,729,800 12,165,249 5,390,907 2.55 2.26
Effect of dilutive potential common stock

Convertible bonds
177,111 139,635 179,120
Employee stock options issued by ASE Inc.
- - 63,118
Employee stock options issued by subsidiaries
(24,660) (24,660) -
Diluted EPS

Income attributable to shareholders of the parent plus effect of potential dilutive common stock
13,882,251 12,280,224 5,633,145 2.46 2.18
Year ended December 31, 2008

Basic EPS

Income attributable to shareholders of the parent
7,341,503 6,160,052 5,392,872 1.36 1.14
Effect of dilutive potential common shares

Bonus to employees
- - 25,472
Convertible bonds
- - 6,164
Employee stock options issued by ASE Inc.
- - 32,848
Bonus to employees and employee stock options issued by subsidiaries
(60,592) (60,592) -
Diluted EPS

Income attributable to shareholders of the parent plus effect of potential dilutive common stock
7,280,911 6,099,460 5,457,356 1.33 1.12

(Continued)

Table of Contents

	Amounts (Numerator)		Number of Shares (Denominator)	EPS	
	Before Income Tax US$	After Income Tax US$	(In Thousands)	Before Income Tax US$	After Income Tax US$
Year ended December 31, 2008					
Basic EPS					
Income attributable to shareholders of the parent	224,100	188,036	5,392,872	0.04	0.03
Effect of dilutive potential common shares					
Bonus to employees	-	-	25,472		
Convertible bonds	-	-	6,164		
Employee stock options issued by ASE Inc.	-	-	32,848		
Bonus to employees and employee stock options issued by subsidiaries	(1,850)	(1,850)	-		
Diluted EPS					
Income attributable to shareholders of the parent plus effect of potential dilutive common stock	222,250	186,186	5,457,356	0.04	0.03

(Concluded)

For purposes of the ADS calculation, the denominator represents the above-mentioned weighted average outstanding shares divided by five (one ADS represents five common shares). The numerator was the same.

The ROC ARDF issued Interpretation 96-052 that requires companies to recognize bonuses paid to employees, directors and supervisors as compensation expenses beginning January 1, 2008. These bonuses were previously recorded as appropriations from earnings. If the Company may settle the bonus to employees by cash or shares, the Company should presume that the entire amount of the bonus will be settled in shares and the resulting potential shares should be included in the weighted average number of shares outstanding used in the calculation of diluted EPS, if the shares have a dilutive effect. The number of shares is estimated by dividing the entire amount of the bonus by the closing price (after consideration of the dilutive effect of dividends) of the shares at the balance sheet date. Such dilutive effect of the potential shares needs to be included in the calculation of diluted EPS until the shareholders resolves the number of shares to be distributed to employees at their meeting in the following year.

The weighted average number of shares outstanding for EPS calculation has been retroactively adjusted for the issuance of stock dividends, issuance of common stock from capital surplus and employee stock bonuses. This adjustment caused the basic after income tax EPS for the years ended December 31, 2006 and 2007 to decrease from NT$3.95 to NT$3.29 and NT$2.34 to NT$2.26, respectively. This adjustment caused diluted after income tax EPS for the years ended December 31, 2006 and 2007 to decrease from NT$3.77 to NT$3.14 and from NT$2.26 to NT$2.18, respectively.

26. DISCLOSURES FOR FINANCIAL INSTRUMENTS

a. Fair values of financial instruments were as follows:

	December 31					
	2007		2008			
	Carrying Amount	Fair Value	Carrying Amount		Fair Value	
	NT$	NT$	NT$	US$	NT$	US$
Non-derivative financial instruments						
Assets						
Financial assets at fair value through profit or loss	1,599,353	1,599,353	536,427	16,375	536,427	16,375
Available-for-sale financial assets	9,406,327	9,406,327	279,812	8,541	279,812	8,541
Held-to-maturity financial assets	50,000		-	-		
Bond investments with no active market	-		450,000	13,736		
Financial assets carried at cost	525,025		575,495	17,567		
Guarantee deposits	490,306	490,306	61,224	1,869	61,224	1,869
Restricted assets	279,068	279,068	191,416	5,843	191,416	5,843

(Continued)

Table of Contents

	December 31					
	2007		2008			
	Carrying Amount	Fair Value	Carrying Amount		Fair Value	
	NT$	NT$	NT$	US$	NT$	US$
Liabilities						
Long-term bonds payable (including current portion)	7,264,735	8,494,109	1,375,000	41,972	1,344,379	41,037
Long-term bank loans (including current portion)	23,280,708	23,280,708	52,510,410	1,602,882	51,510,410	1,602,882
Capital lease obligations (including current portion)	92,350	92,350	39,060	1,192	39,060	1,192
Derivative financial instruments						
Assets						
Forward exchange contracts	2,641	2,641	1,053	32	1,053	32
Liabilities						
Swap contracts	-	-	61,257	1,870	61,257	1,870
Forward exchange contracts	16,493	16,493	21,410	654	21,410	654
Interest rate swap contract	20,319	20,319	391,904	11,962	391,904	11,962
Cross currency swap contracts	7,519	7,519	-	-	-	-

(Concluded)

b. Methods and assumptions used in the estimation of fair values of financial instruments were as follows:

1) The aforementioned financial instruments do not include cash and cash equivalents, accounts receivable, other receivables, short-term borrowings, short-term bills payable, accounts payable, accrued expenses and payable for properties. These financial instruments' carrying amounts approximate their fair values.

2) Fair values of financial assets at FVTPL and available-for-sale financial assets were determined using their quoted market prices in an active market. Fair values of derivatives were determined using valuation techniques incorporating estimates and assumptions consistent with those generally used by other market participants to price financial instruments.

3) Financial assets carried at cost, held-to-maturity financial assets and bond investments with no active market are investments in unquoted securities, which have no quoted prices in an active market and entail an unreasonably high cost to obtain verifiable fair values. Therefore, no fair value is presented.

4) The interest rates of long-term debts except bonds payable were mainly floating; therefore, their fair values approximate carrying amounts. Fair value of bonds payable was based on their quoted market price.

5) The carrying amounts of guarantee deposits and restricted assets reflect their fair values.

c. Valuation gains (losses) from changes in fair value of financial instruments determined using valuation techniques were NT$(260,569) thousand, NT$147,498 thousand and NT$251,616 thousand (US$7,681 thousand) for the years

ended December 31, 2006, 2007 and 2008, respectively.

d. As of December 31, 2007 and 2008, financial assets exposed to fair value interest rate risk amounted to NT$185,821 thousand and NT$53,544 thousand (US$1,634 thousand), respectively, financial liabilities exposed to fair value interest rate risk amounted to NT$4,739,247 thousand and NT$215,927 thousand (US$6,591 thousand), respectively, financial assets exposed to cash flow interest rate risk amounted to NT$14,045,750 thousand and NT$16,263,728 thousand (US$496,451 thousand), respectively, and financial liabilities exposed to cash flow interest rate risk amounted to NT$34,207,038 thousand and NT$61,302,873 thousand (US$1,871,272 thousand), respectively.

Table of Contents

e. For the years ended December 31, 2006, 2007 and 2008, interest income of NT$406,364 thousand, NT$364,933 thousand and NT$351,286 thousand (US$10,723 thousand), and interest expense (including capitalized interest) of NT$1,841,401 thousand, NT$1,696,609 thousand and NT$1,931,018 thousand (US$58,944 thousand) were associated with financial assets or liabilities other than those at FVTPL.

f. Strategy for financial risk

The derivative instruments employed by the Company are to mitigate risks arising from ordinary business operation. All derivative transactions entered into by the Company are designated as either hedging or trading, which are governed by separate internal guidelines and controls. Derivative transactions entered into for hedging purposes must hedge risk against fluctuations in foreign exchange and interest rates arising from operating activities. The currency and the amount of derivative instruments held by the Company must match its assets and liabilities.

g. Information about financial risk

1) Market risk

All derivative financial instruments are mainly held to hedge the exchange rate fluctuations of foreign-currency-denominated assets and liabilities and interest rate fluctuations on its floating rate long-term loans. Exchange gains or losses on these derivative contracts are likely to be offset by gains or losses on the hedged assets and liabilities. Interest rate risks are also controlled because the expected cost of capital is fixed. Thus, market risk for derivative contracts is believed to be immaterial.

The Company holds open-end mutual funds, bond investments and quoted stocks, which are subject to price risk. The fair value of these funds will decrease by NT$8,000 thousand (US$244 thousand) if their market price decreases by 1%.

2) Credit risk

Credit risk represents the potential loss that would be incurred by the Company if counter parties or third parties breached contracts. Credit risk represents the positive fair values of contracts as of the balance sheet date. The Company’s maximum credit risk on financial instruments approximated their carrying amounts as of December 31, 2007 and 2008.

3) Liquidity risk

The Company’s operating funds are deemed sufficient to meet cash flow demand; therefore, the Company’s liquidity risk is not considered to be significant.

The Company’s investments in open-end mutual funds and quoted stocks are traded in active markets and can be disposed of quickly at close to their fair values. The Company’s financial assets carried at cost have no active markets; therefore, liquidity risk for such assets is expected to be high.

4) Cash flow interest rate risk

The Company’s short-term and long-term loans are mainly floating interest rate debts. When the market interest rate increases by 1%, the Company’s annual cash out flows will increase by NT$613,028 thousand (US$18,713 thousand).

F-50

Table of Contents

h. Cash flow hedge

ASE Inc. entered into an interest rate swap contract in August 2008 to hedge fluctuations in interest rates on its long-term loans. As of December 31, 2008, the notional amount of the outstanding contract was NT$12,000,000 thousand (US$366,300 thousand). Interest receipt and payment were based on floating rates (1.88% as of December 31, 2008) and fixed rate of 2.45%~2.48%, respectively. The contract will mature in March 2013. The fair value of the interest rate swap contract as of December 31, 2008 was a loss NT$391,695 thousand (US$11,956 thousand) and was recorded as hedging derivative liabilities-noncurrent with an adjustment to shareholders' equity.

In addition, ASE Test, Inc. entered into cross currency swap contracts in 2007 and 2008 to hedge exposures from fluctuations in both foreign exchange and interest rates on its receivable from an affiliate, ASE Test Finance Limited. The contracts were settled in December 2007 and May 2008, respectively. Net gains from cross currency swap contracts for hedging purposes were NT$5,475 thousand (recorded as a deduction in interest income of NT$16,273 thousand and foreign exchange gains of NT$21,748 thousand) and NT$ 58,282 thousand (recorded as a deduction in interest income of NT$24,514 thousand and foreign exchange gains of NT$82,796 thousand) for the years ended December 31, 2007 and 2008, respectively.

27. RELATED PARTY TRANSACTIONS

The Company purchased real estate properties from HCDC for NT$141,238 thousand in 2007 and the prices were based on their fair market values as assessed by appraisers. As of December 31, 2008, all of the amounts had been paid.

The Company contracted with HCDC for factory and office building construction, but the contract was terminated in 2008. As a result of the termination, NT$36,000 thousand (US$1,099 thousand) was paid by the Company to HCDC and was recorded as non-operating losses.

Information regarding compensation to directors, supervisors and management personnel:

	Year ended December 31			
	2006	2007	2008	
	NT$	NT$	NT$	US$
Salary, incentives and special compensation	740,176	545,656	455,078	13,891
Bonus	96,028	102,635	71,453	2,181
	836,204	648,291	526,531	16,072

The compensation of directors, supervisors and management personnel for the years ended December 31, 2006 and 2007 included the bonuses appropriated from earnings for 2006 and 2007 which had been approved by shareholders in their annual meeting held in 2007 and 2008.

28. ASSETS PLEDGED OR MORTGAGED

The following assets have been pledged or mortgaged as collateral for bank loans, import duties for raw materials and as guaranty deposits for employment of foreign labor, etc:

Table of Contents

	December 31		
	2007	2008	
	NT$	NT$	US$
Property, plant and equipment			
Land	505,151	511,644	15,618
Buildings and improvements	2,835,856	2,073,292	63,287
Machinery and equipment	4,807,205	434,907	13,276
Inventory - construction in progress	-	1,144,113	34,924
Restricted assets	279,068	191,416	5,843
Idle assets	196,552	-	-
Land use rights	152,982	-	-
	8,776,814	4,355,372	132,948

29. COMMITMENTS AND CONTINGENCIES

a. ASE Inc. and ASE Test, Inc. lease the land on which their buildings are situated under various operating lease agreements with the ROC government expiring on various dates through September 2017. The agreements grant these entities the option to renew the leases and reserve the right for the lessor to adjust the lease payments upon an increase in the assessed value of the land and to terminate the leases under certain conditions. In addition, the Company leases buildings, machinery and equipment under non-cancelable operating leases.

The future minimum lease payments under the above-mentioned operating leases as of December 31, 2008 were as follows:

	Amount	
	NT$	US$
2009	287,035	8,762
2010	209,778	6,403
2011	43,722	1,335
2012	34,348	1,048
2013 and thereafter	98,862	3,018
Total minimum lease payments	673,745	20,566

b. As of December 31, 2008, unused letters of credit of the Company were approximately NT$323,000 thousand (US$9,860 thousand).

c. As of December 31, 2008, commitments to purchase machinery and equipment of the Company were approximately NT$2,243,000 thousand (US$68,468 thousand), of which NT$27,623 thousand (US$843 thousand) had been prepaid.

d. As of December 31, 2008, outstanding commitments related to construction of buildings of the Company were approximately NT$1,532,000 thousand (US$46,764 thousand), of which NT$275,253 thousand (US$8,402 thousand) had been prepaid.

e. The Company entered into technology license agreements with foreign companies which will expire on various dates through 2013. Pursuant to the agreements, the Company shall pay royalties based on specified percentages of sales volume and licensing fees to the counter parties. Royalties and licensing fees paid for the years ended December 31, 2006, 2007 and 2008 were approximately NT$282,381 thousand, NT$246,849 thousand and NT$199,195 thousand (US$6,080 thousand), respectively.

F-52

Table of Contents

f. Tessera Inc. ("Tessera") filed an amended complaint in the United States District Court for the Northern District of California in February 2006 adding the Company to a suit alleging that the Company infringed patents owned by Tessera (the "California Litigation"). At Tessera's request, the United States International Trade Commission ("ITC") instituted an investigation of certain of the Company's co-defendants and other companies.

The district court in the California Litigation has vacated the trial schedule and stayed all proceedings pending a final resolution of the first ITC investigation. The United States Patent and Trademark Office have also instituted reexamination proceedings on all the patents Tessera has asserted in the California Litigation and the ITC Investigation. As of March 12, 2009, Tessera moved to terminate the investigation.

As of April 16, 2009 the impact of the California Litigation or the ITC Investigation cannot be estimated.

g. The Company and Spansion Inc. announced in October 2008 the signing of a memorandum of understanding with respect to entering into a joint venture to jointly own Spansion Inc.'s FMO facility in Suzhou, China. As of April 16, 2009, the project is suspended, and the definitive agreement has not been signed.

30. LOSS ON FIRE DAMAGE

ASE Inc. and its subsidiary, ASE Test, Inc., incurred fire damage to their production lines in Chung Li, Taiwan on May 1, 2005, and recognized an estimated loss of NT$13,479,079 thousand for damages to their inventories, building, machinery and equipment. With the assistance of external counsel, the Company submitted insurance claims of NT$4,641,000 thousand to its insurers for compensation for damages which the Company believes to be clearly identifiable and reasonably estimated, and recorded the amount as an offset to fire loss in 2005.

The Company reached a final settlement with the insurers in June 2006 with regards to the fire damage incurred to the production lines and facilities in Chung Li. The final settlement amount of NT$8,068,000 thousand, offset by the NT$4,641,000 thousand recorded in 2005 and the related repair and restoring expenses of NT$1,043,132 thousand, was recorded in 2006. The Company also reversed NT$2,190,583 thousand of impairment loss recognized in 2005 after careful analysis of the increase in the estimated service potential of the production line facilities by an external specialist. The net amount of NT$4,574,451 thousand was recognized as a gain on insurance settlement and loss recovery in 2006. All of the insurance recoveries were received in August 2006.

31. SEGMENT AND GEOGRAPHICAL INFORMATION

a. Geographical sales and long-lived assets information

1) Net revenues:

	Year Ended December 31						
	2006		2007		2008		
	NT$	% of Total Revenues	NT$	% of Total Revenues	NT$	US$	% of Total Revenues
America	53,280,483	53	50,389,904	50	50,082,695	1,528,776	53

Taiwan	18,810,441	19	21,413,369	21	18,681,217	570,245	20
Asia	15,752,825	16	16,760,893	17	12,950,935	395,328	14
Europe	12,579,366	12	12,597,299	12	12,714,009	388,095	13
Other	532	-	1,604	-	2,056	62	-
	100,423,647	100	101,163,069	100	94,430,912	2,882,506	100

F-53

Table of Contents

2) Long-lived assets:

	December 31				
	2007		2008		
	NT$	%	NT$	US$	%
Taiwan	47,364,686	58	44,802,206	1,367,588	53
Asia	34,074,540	42	39,090,983	1,193,253	46
America	349,103	-	864,795	26,397	1
	81,788,329	100	84,757,984	2,587,238	100

b. Major customers

For the years ended December 31, 2006, 2007 and 2008, the Company did not have a single customer to which the net revenues exceeded 10% of total net revenues.

c. Reported segment information

The Company has three reportable segments: Packaging, testing and investing and other. The Company packages bare semiconductors into finished semiconductors with enhanced electrical and thermal characteristics; provides testing services, including front-end engineering testing, wafer probing and final testing services; and engages in investing activities. The accounting policies for segments are the same as those described in Note 2. Segment information for the years ended December 31, 2006, 2007 and 2008 was as follows:

	Packaging NT$	Testing NT$	Investing and Other NT$	Total NT$
2006				
Revenue from external customers	76,820,475	21,429,584	2,173,588	100,423,647
Inter-segment revenues	74,879	51,214	5,821,221	5,947,314
Interest income	193,412	66,237	146,715	406,364
Interest expense	(861,737)	(145,669)	(612,888)	(1,620,294)
Net interest expense	(668,325)	(79,432)	(466,173)	(1,213,930)
Depreciation and amortization	(8,245,204)	(4,889,792)	(1,353,215)	(14,488,211)
Gain on insurance settlement and impairment recovery	1,758,957	1,637,709	1,177,785	4,574,451
Segment profit (loss)	14,679,021	7,829,473	(257,070)	22,251,424
Segment assets	78,958,866	33,095,566	24,986,444	137,040,876
Expenditures for segment assets	7,025,247	4,859,188	5,846,500	17,730,935
Goodwill	772,148	1,619,698	439,428	2,831,274
2007				
Revenue from external customers	78,516,274	20,007,839	2,638,956	101,163,069
Inter-segment revenues	222,086	45,576	8,769,842	9,037,504

Interest income	229,917	85,363	33,380	348,660
Interest expense	(773,671)	(87,635)	(713,218)	(1,574,524)
Net interest expense	(543,754)	(2,272)	(679,838)	(1,225,864)
Depreciation and amortization	(9,379,964)	(5,410,619)	(1,835,569)	(16,626,152)
Segment profit (loss)	14,879,301	5,359,835	(941,970)	19,297,166
Segment assets	91,802,902	36,968,716	23,605,832	152,377,450
Expenditures for segment assets	10,502,494	6,330,268	1,339,393	18,172,155
Goodwill	1,040,509	1,708,255	439,353	3,188,117

(Continued)

Table of Contents

2008	Packaging NT$	Testing NT$	Investing and Other NT$	Total NT$
Revenue from external customers	73,391,622	19,021,360	2,017,930	94,430,912
Inter-segment revenues	1,227,553	71,513	10,047,595	11,346,661
Interest income	174,358	80,379	72,035	326,772
Interest expense	(1,201,699)	(62,048)	(549,549)	(1,813,296)
Net interest income (expense)	(1,027,341)	18,331	(477,514)	(1,486,524)
Depreciation and amortization	(9,706,923)	(5,799,216)	(1,738,713)	(17,244,852)
Segment profit (loss)	8,152,859	4,159,597	(512,941)	11,799,515
Segment assets	79,836,198	49,326,401	23,027,388	152,189,987
Expenditures for segment assets	9,266,015	6,323,387	1,034,303	16,623,705
Goodwill	1,392,743	7,639,685	423,663	9,456,091

2008	Packaging US$	Testing US$	Investing and Other US$	Total US$
Revenue from external customers	2,240,282	580,627	61,597	2,882,506
Inter-segment revenues	37,470	2,183	306,703	346,356
Interest income	5,322	2,454	2,199	9,975
Interest expense	(36,682)	(1,894)	(16,775)	(55,351)
Net interest income (expense)	(31,360)	560	(14,576)	(45,376)
Depreciation and amortization	(296,304)	(177,021)	(53,075)	(526,400)
Segment profit (loss)	248,866	126,972	(15,657)	360,181
Segment assets	2,437,002	1,505,690	702,910	4,645,602
Expenditures for segment assets	282,845	193,022	31,572	507,439
Goodwill	42,513	233,202	12,932	288,647

(Concluded)

32. SUMMARY OF SIGNIFICANT DIFFERENCES BETWEEN ACCOUNTING PRINCIPLES FOLLOWED BY THE COMPANY AND ACCOUNTING PRINCIPLES GENERALLY ACCEPTED IN THE UNITED STATES OF AMERICA

The Company's consolidated financial statements have been prepared in accordance with ROC GAAP, which differs in the following respects from U.S. GAAP:

a. Pension benefits

The Company adopted U.S. Statement of Financial Accounting Standards ("U.S. SFAS") No. 87, "Employers' Accounting for Pensions" ("U.S. SFAS No. 87") on January 1, 1987, which requires the Company to determine the accumulated pension obligation and the pension expense on an actuarial basis.

U.S. SFAS No. 87 was amended by U.S. SFAS No. 158, “Employers’ Accounting for Defined Benefit Pension and Other Postretirement Plans” (“U.S. SFAS No. 158”) on September 29, 2006, which requires employers to recognize the overfunded or underfunded status of a defined benefit pension plan as an asset or liability in its statement of financial position and to recognize changes in that funded status in the year in which the changes occur through comprehensive income. Specifically, U.S. SFAS No. 158 defines the funded status of a benefit plan as the difference between the fair value of the plan assets and the projected benefit obligation. In addition, it requires companies to recognize actuarial gains or losses, prior service costs or credits, and the transition asset or obligation remaining that were unrecognized as of the initial adoption date of U.S. SFAS No. 158. The Company adopted U.S. SFAS No. 158 on December 31, 2006.

Table of Contents

ROC SFAS No. 18, “Accounting for Pensions” (“ROC SFAS No. 18”) is similar in many respects to U.S. SFAS No. 87 and was adopted by the Company in 1996. However, ROC SFAS No. 18 does not require a company to recognize the overfunded or underfunded status of a defined benefit pension plan as an asset or liability in the statement of financial position. The difference in the dates of adoption gives rise to a U.S. GAAP difference in the actuarial computation for transition obligation and the related amortization.

b. Marketable securities

Under ROC GAAP, prior to January 1, 2006, marketable securities were carried at the lower of aggregate cost or market, and debt securities were carried at cost, with only unrealized losses recognized. Effective January 1, 2006, the Company adopted ROC SFAS No. 34, “Financial Instruments: Recognition and Measurement” and No. 36, “Financial Instruments: Disclosure and Presentation”. Financial instruments including debt securities and equity securities are categorized as FVTPL, available-for-sale or held-to-maturity securities. Financial assets at FVTPL has two sub-categories: financial assets designated on initial recognition as assets to be measured at fair value with fair value changes recognized in profit or loss, and financial assets that are classified as held for trading. These classifications are similar to those required by U.S. SFAS No. 115, “Accounting for Certain Investments in Debt and Equity Securities” (“U.S. SFAS No. 115”).

Under U.S. SFAS No. 115, debt and equity securities that have readily determinable fair values are classified as either trading, available-for-sale or held-to-maturity securities. Debt securities that the Company has the positive intent and ability to hold to maturity are classified as held-to-maturity securities and reported at amortized cost. Debt and equity securities that are bought and traded for short-term profit are classified as trading securities and reported at fair value, with unrealized gains and losses included in earnings. Debt and equity securities not classified as either held-to-maturity or trading are classified as available-for-sale securities and reported at fair value, with unrealized gains and losses excluded from earnings and reported as a separate component of shareholders’ equity.

Upon adoption of ROC SFAS No. 34 and No. 36 on January 1, 2006, the Company recorded a cumulative effect of changes in accounting principles of NT$342,503 thousand for the year ended December 31, 2006 for marketable securities and derivative financial instruments, of which NT$16,331 thousand relates to the adjustment of the carrying basis of trading securities to fair market value. Such adjustment, representing the unrealized gain on trading securities already recognized under U.S. GAAP in 2005, was reversed in 2006 as a one-time reconciling adjustment between U.S. GAAP and ROC GAAP.

Upon adoption of ROC SFAS No. 34 and No. 36, the Company also adjusted the carrying value of the marketable securities categorized as AFS, which were carried at the lower of aggregate cost or market with unrealized losses included in earnings, to fair market value on January 1, 2006. Therefore, prior to January 1, 2006, unrealized gains and losses included in shareholders’ equity associated with AFS marketable securities under ROC GAAP were different from those under U.S. GAAP.

c. Bonuses to employees, directors and supervisors

According to ROC regulations and the Articles of Incorporation of ASE Inc., a portion of distributable earnings is required to be set aside as bonuses to employees, directors and supervisors. Bonuses to directors and supervisors are always paid in cash. However, bonuses to employees may be granted in cash or stock or both. Prior to January 1, 2008, all of these appropriations, including stock bonuses which were valued at par value of NT$10, were charged against retained earnings under ROC GAAP after approval by the shareholders in the following year.

Under U.S. GAAP, such bonuses are charged to earnings in the year earned. Shares issued as part of these bonuses are recorded at fair market value. Since the amount and form of such bonuses are not usually determinable until the shareholders' meeting in the subsequent year, the total amount of the aforementioned bonuses is initially accrued based on management's estimate regarding the amount to

Table of Contents

be paid based on the Articles of Incorporation. Any difference between the initially accrued amount and the fair market value of any shares issued as bonuses is recognized in the year of approval by the shareholders.

Effective January 1, 2008, the Company adopted Interpretation 96-052, "Accounting for Bonuses to Employees, Directors and Supervisors" issued in March 2007 by the ROC ARDF, which requires companies to record bonuses paid to employees, directors and supervisors as an expense rather than as an appropriation of earnings. The amount of compensation expense related to stock bonuses is determined based on the market value of ASE Inc.'s common stock at the date immediately preceding the shareholders' meeting.

Accordingly, the Company is no longer required to record the first reconciling adjustment for the year ended December 31, 2008 as mentioned above. However, the Company recorded the second reconciling adjustment to reflect the additional compensation expense recognized in 2008 for 2007 bonuses paid in stock, which was measured at the fair market value on the date of stock distribution. Starting from January 1, 2009, the only U.S. GAAP reconciling adjustment for the bonuses paid in stock will be the difference of the market value of the stock bonuses between the date of stock distribution and the date immediately preceding the shareholders' meeting.

d. Depreciation of buildings

Under ROC GAAP, buildings may be depreciated over their estimated life or up to 40 years based on ROC practices and tax regulations. For U.S. GAAP purposes, buildings are depreciated over their estimated economic useful life of 25 years.

e. Depreciation on the excess of book value on transfer of buildings between subsidiaries

ASE Test, Inc. purchased buildings and facilities from ASE Technologies Inc. in 1997. The purchase price was based on market value, which meant the portion of the purchase price in excess of book value of NT$17,667 thousand was capitalized by ASE Test, Inc. as allowed under ROC GAAP. Under U.S. GAAP, transfers of assets between entities under common control are recorded at historical cost. Therefore, depreciation on the capitalized excess amount recorded under ROC GAAP is reversed under U.S. GAAP until the buildings and facilities are fully depreciated or disposed of.

f. Gain on sales of subsidiary's stock

The carrying value of stock investments in ASE Test by J&R Holding under ROC GAAP is different from that under U.S. GAAP, therefore differences in the amount of related gains upon the sale of such stock investments have been recorded in the equity reconciliation.

g. Effects of U.S. GAAP adjustments on equity method investments

The carrying amounts of equity method investments and the investment income (loss) recognized by the equity method in HCDC, HCKC and USI are reflected in the consolidated financial statements under ROC GAAP. The financial statements of these equity method investees prepared under ROC GAAP are different from the financial statements of such equity method investees prepared under U.S. GAAP mainly due to the differences in accounting for bonuses to employees, directors and supervisors, stock options and the depreciation of buildings. Therefore, the investment income (loss) has been adjusted to reflect the differences between ROC GAAP and U.S. GAAP in the investees' financial statements.

h. Impairment of long-lived assets

Under U.S. GAAP, an impairment loss is recognized when the carrying amount of an asset or a group of assets is not recoverable from the expected future cash flows and the impairment loss is measured as the difference between the fair value and the carrying amount of the asset or group of assets. The impairment loss is recorded in earnings and cannot be reversed subsequently. Long-lived assets

Table of Contents

(excluding goodwill and other indefinite lived assets) held and used by the Company are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

Under ROC GAAP, for purposes of evaluating the recoverability of long-lived assets, assets purchased for use in the business but subsequently determined to have no use were written down to fair value and recorded as idle assets. Under ROC GAAP, effective January 1, 2005, the Company is required to recognize an impairment loss when an indication is identified that the carrying amount of an asset or a group of assets is not recoverable from the expected discounted future cash flows. However, if the recoverable amount increases in a future period, the amount previously recognized as impairment would be reversed and recognized as a gain. The adjusted amount may not exceed the carrying amount that would have been determined, net of depreciation, if no impairment loss had been recognized.

As discussed in Note 30, in 2006, the Company reversed NT$2,190,583 thousand of impairment loss recognized in 2005 under ROC GAAP after a careful analysis of the increase in the estimated service potential of the production line and facilities by an external specialist. Such reversal is prohibited under U.S. GAAP. As such, differences in the cost basis of these damaged machinery and equipment, associated depreciation expense and gain on recoveries related to restoration of such damaged machinery and equipment between ROC GAAP and U.S. GAAP are reflected in the reconciliation.

i. Stock dividends

Under ROC GAAP, stock dividends are recorded at par value with a charge to retained earnings. Under U.S. GAAP, if the ratio of distribution is less than 25 percent of the same class of shares outstanding, the fair value of the shares issued should be charged to retained earnings. The difference for stock dividends paid in 2007 and 2008 is treated as an additional reduction to retained earnings and an increase to capital surplus of NT$14,264 million and NT$687 million (US$20,981 thousand), respectively.

j. Stock-based compensation

Under U.S. GAAP, stock-based compensation expense for the year ended December 31, 2006 includes compensation expense for all unvested stock-based compensation awards granted prior to January 1, 2006 that are expected to vest, based on the grant-date fair value estimated in accordance with the transition method and the original provision of U.S. SFAS No. 123, "Accounting for Stock-Based Compensation" ("U.S. SFAS No. 123"). Upon an employee's termination, unvested awards are forfeited, which affects the quantity of options to be included in the calculation of stock-based compensation expense. Forfeitures do not include vested options that expire unexercised. Stock-based compensation expense for all stock-based compensation awards granted after January 1, 2006 is based on the grant-date fair value estimated in accordance with the provisions of U.S. SFAS No. 123R, "Share-Based Payment" ("U.S. SFAS No. 123R"). The Company recognizes compensation expense using the graded vesting method over the requisite service period of the award, which is generally the option vesting term of five years. See Note 33d for a further discussion on stock-based compensation.

Certain characteristics of the stock options granted under the ASE 2002 Option Plan made the fair values of these options not reasonably estimable using appropriate valuation methodologies as prescribed under U.S. SFAS No. 123; therefore, these options have been accounted for using the intrinsic value method. Upon the adoption of U.S. SFAS No. 123R, the Company continued to account for these stock options based on their intrinsic value, remeasured at each reporting date through the date of exercise or other settlement.

F-58

Table of Contents

Under ROC GAAP, employee stock option plans that were granted or modified in the period from January 1, 2004 to December 31, 2007 are accounted for by the interpretations 2003-070~072 and 2004-073 issued by the ROC ARDF. The Company adopted the intrinsic value method and any compensation expense determined using this method is recognized over the vesting period.

Effective January 1, 2008, the Company adopted ROC SFAS No. 39, “Accounting for Share-based Payment”, which is similar in many respects to U.S. SFAS No. 123R and requires companies to record share-based payment transactions in the financial statements at fair value for the employee stock options that were granted or modified after December 31, 2007. The Company has not granted or modified employee stock options since January 1, 2008. No stock-based compensation expense was recognized under ROC GAAP for the years ended December 31, 2006, 2007 and 2008.

k. Derivative financial instruments

The Company accounts for derivatives that do not qualify for hedge accounting be recorded as “financial assets or liabilities at fair value through profit or loss” at fair value in accordance with ROC SFAS No. 34.

Under U.S. GAAP, accounting for derivative instruments is prescribed in U.S. SFAS No. 133, as amended by U.S. SFAS No. 138, which requires that all companies recognize derivative instruments as assets and liabilities in the balance sheet at fair value. If certain conditions are met, including certain rigorous documentation requirements, entities may elect to designate a derivative instrument as a hedging instrument.

As such, the GAAP difference presented in the reconciliation below for derivative instruments represents the effect of the initial adoption of ROC SFAS No. 34 on January1, 2006.

l. Goodwill

Before January 1, 2006, under ROC GAAP, the Company amortized goodwill arising from acquisitions over 10 years. Effective January 1, 2006, the Company adopted ROC SFAS No. 25 (revised in 2005), “Business Combinations - Accounting Treatment under Purchase Method” which is similar to U.S. SFAS No. 142 “Goodwill and Other Intangible Assets” (“U.S. SFAS No. 142”). The Company reviews goodwill for impairment in accordance with the provision of the standards under ROC and U.S. GAAP and found no impairment as of December 31, 2007 and 2008.

Under U.S. GAAP, the Company adopted U.S. SFAS No. 142, on January 1, 2002, which requires the Company to review goodwill for possible impairment existed at the date of adoption and perform subsequent impairment tests on at least an annual basis. As a result, for U.S. GAAP purposes, the Company ceased to amortize goodwill effective January 1, 2002. Definite-lived intangible assets continue to be amortized over their estimated useful lives.

The determination of whether or not goodwill is impaired under U.S. SFAS No. 142 is made by first estimating the fair value of the reporting unit and comparing the fair value of a reporting unit with its carrying amount, including goodwill. If the carrying amount of a reporting unit exceeds its fair value, the Company calculates an implied fair value of the goodwill based on an allocation of the fair value of the reporting unit to the underlying assets and liabilities. If the carrying amount of the reporting unit’s goodwill exceeds the implied fair value of that goodwill, an impairment loss shall be recognized in an amount equal to that excess.

m. Undistributed earnings tax

In the ROC, a 10% tax is imposed on unappropriated earnings. For ROC GAAP purposes, the Company records the 10% tax on unappropriated earnings in the year of shareholders' approval. In 2002, the American Institute of Certified Public Accountants International Practices Task Force (the "Task Force") concluded that in accordance with Emerging Issues Task Force (EITF) 95-10,

Table of Contents

"Accounting for tax credits related to dividends in accordance with SFAS 109", the 10% tax on unappropriated earnings should be accrued under U.S. GAAP during the period the earnings arise and adjusted to the extent that distributions are approved by the shareholders in the following year.

n. Impairment loss on equity method investments

ROC GAAP and U.S. GAAP require an assessment of impairment of long-term investments whenever events or circumstances indicate a decline in value that may be other than temporary. The criteria for determining whether or not an impairment charge is required are similar under ROC GAAP and U.S. GAAP; however, the methods to measure the amount of impairment may be based on different estimates of fair values depending on the circumstances. When impairment is determined to have occurred, U.S. GAAP generally requires the market price to be used, if available, to determine the fair value of the long-term investment and measure the amount of impairment at the reporting date. Under ROC GAAP, if the investments have an inactive market, another measure of fair value may be used. No impairment charge was incurred under U.S. GAAP in 2006, 2007 and 2008. The accumulated GAAP difference of NT$2,078,620 thousand was caused by the impairment charges recorded in 2002 and 2004.

o. Uncertainty in income taxes

Under ROC GAAP, uncertainty in income taxes or adjustments of prior years' income taxes is recorded as current year's income tax expense. Under U.S. GAAP, effective January 1, 2007, the Company accounts for uncertainties in income taxes in accordance with FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109" ("FIN 48"). FIN 48 clarifies the accounting for uncertainty in income taxes by prescribing the recognition threshold a tax position is required to meet before being recognized in the consolidated financial statements. It also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. The adoption of FIN 48 resulted in a cumulative effect of NT$24,154 thousand, which was recorded as an adjustment to retained earnings at the beginning of 2007.

p. Earnings per share

Under ROC GAAP, basic earnings per share is calculated by dividing net income by the weighted average number of shares outstanding in each period, which is retroactively adjusted to the beginning of the year for stock dividends and stock bonuses issued subsequently. Under U.S. GAAP, basic earnings per share is calculated by dividing net income by the weighted average number of shares outstanding in each period, which is retroactively adjusted for stock dividends issued subsequently. For stock bonuses to employees, shares are included in the calculation of weighted-average number of shares outstanding from the date of issuance. For diluted earnings per share, unvested stock options are included in the calculation using the treasury stock method if the inclusion of such would be dilutive.

U.S. SFAS No. 128, "Earnings per Share" provides guidance on applying the treasury stock method for equity instruments granted in share-based payment transactions in determining diluted earnings per share, which states that the assumed proceeds shall be the sum of (a) the exercise price, (b) the amount of compensation cost attributed to future services and not yet recognized, and (c) the amount of excess tax benefits that would be credited to additional paid-in capital assuming exercise of the options. Prior to January 1, 2006, the Company used the intrinsic value method to account for its stock-based compensation under APB No. 25, and had no unrecognized compensation cost to be included in the assumed proceeds. However, upon adoption of U.S. SFAS No. 123R, the Company has unrecognized compensation cost, and therefore, the number of shares included in the diluted earnings per share calculation under U.S. GAAP is different from that under ROC GAAP.

The following schedule reconciles net income and shareholders' equity under ROC GAAP as reported in the consolidated financial statements to the net income and shareholders' equity amounts as determined under U.S. GAAP, giving effect to adjustments for the differences listed above.

Table of Contents

	Year Ended December 31			
	2006	2007	2008	
	NT$	NT$	NT$	US$
Net income				
Net income based on ROC GAAP	17,416,151	12,165,249	6,160,052	188,036
Adjustments:				
a. Pension benefits	104,011	4,382	1,920	59
b. Marketable securities	(16,331)	-	-	-
c. Bonuses to employees, directors and supervisors	(1,656,438)	(2,054,493)	(328,013)	(10,013)
d. Depreciation of buildings	(103,493)	(116,574)	(117,394)	(3,583)
e. Depreciation on the excess of book value of buildings transferred between subsidiaries	432	432	432	13
g. Effect of U.S. GAAP adjustments on equity method investees	(38,719)	(26,414)	5,453	166
h. Impairment of long-lived assets				
Recoverable amount	(2,190,583)	-	-	-
Depreciation and gain on recoveries related to restoration of damaged machinery and equipment	85,631	313,277	195,790	5,976
j. Stock-based compensation	(635,041)	(489,490)	(84,835)	(2,590)
j. Cumulative effect of changes in accounting principles upon adoption of U.S. SFAS No. 123R	45,976	-	-	-
k. Derivative financial instruments	590,481	-	-	-
m. Undistributed earnings tax	(300,438)	122,448	(215,601)	(6,581)
o. Uncertainty in income taxes adjustment upon adoption of FIN 48	-	24,154	-	-
Income tax effect of U.S. GAAP adjustments	404,491	(43,603)	(19,599)	(598)
Effect of U.S. GAAP adjustments on minority interest	416,566	31,738	(106,104)	(3,239)
Net decrease in net income	(3,293,455)	(2,234,143)	(667,951)	(20,390)
Net income based on U.S. GAAP	14,122,696	9,931,106	5,492,101	167,646
Earnings per share (Note 33g)				
Basic	2.71	1.87	1.02	0.03
Diluted	2.60	1.81	1.01	0.03
Earnings per ADS (Note 33g)				
Basic	13.57	9.34	5.11	0.16
Diluted	12.98	9.03	5.04	0.16
Number of weighted average outstanding shares (in thousands) (Note 33g)				
Basic	5,202,736	5,317,695	5,368,718	
Diluted	5,505,529	5,566,118	5,405,280	
Number of ADS (in thousands) (Note 33g)				
Basic	1,040,547	1,063,539	1,073,744	
Diluted	1,101,106	1,113,224	1,081,057	

December 31

	2006 NT$	2007 NT$	2008 NT$	US$
Shareholders' equity				
Shareholders' equity based on ROC GAAP	66,019,899	75,173,361	69,671,994	2,126,740
Adjustments:				
a. Pension benefits and additional liability				
Pension benefits	58,218	62,600	64,520	1,969
Unrecognized pension cost on adoption of U.S. SFAS No. 158	(613,362)	(613,362)	(613,362)	(18,723)
Defined benefit pension plan adjustment	-	(26,153)	(627,783)	(19,163)
c. Bonuses to employees, directors and supervisors	(1,656,438)	(1,241,391)	3,394	104
d. Depreciation of buildings	(582,287)	(698,861)	(816,255)	(24,916)
e. Depreciation on the excess of book value of buildings transferred between subsidiaries	(13,599)	(13,167)	(12,735)	(389)

(Continued)

Table of Contents

	December 31			
	2006	2007	2008	
	NT$	NT$	NT$	US$
f. Gain on sale of subsidiary's stock	(8,619)	(8,619)	(8,619)	(263)
g. Effects of U.S. GAAP adjustments on equity method investees	611,004	273,901	594,283	18,141
h. Impairment loss reversal, net	(2,104,952)	(1,791,675)	(1,595,885)	(48,715)
j. Stock option compensation	(908,661)	(908,661)	(908,661)	(27,737)
l. Goodwill				
Amortization	3,041,351	3,041,351	3,041,351	92,837
Impairment loss	(1,600,618)	(1,600,618)	(1,600,618)	(48,859)
m. Undistributed earnings tax	(300,438)	(177,990)	(393,591)	(12,014)
n. Impairment loss on equity method investments	(2,078,620)	(2,078,620)	(2,078,620)	(63,450)
Income tax effect of U.S. GAAP adjustments	635,625	592,022	572,423	17,473
Effect of U.S. GAAP adjustments on minority interest	85,550	117,288	11,184	342
Net decrease in shareholders' equity	(5,435,846)	(5,071,955)	(4,368,974)	(133,363)
Shareholders' equity based on U.S. GAAP	60,584,053	70,101,406	65,303,020	1,993,377

(Concluded)

	Year Ended December 31			
	2006	2007	2008	
	NT$	NT$	NT$	US$
Changes in shareholders' equity based on U.S. GAAP				
Balance, beginning of year	44,959,335	60,584,053	70,101,406	2,139,848
Net income for the year	14,122,696	9,931,106	5,492,101	167,646
Adjustment for bonuses to employees, directors and supervisors	-	1,634,513	973,593	29,719
Adjustment for stock option compensation	635,041	489,490	84,835	2,590
Cumulative effect of changes in accounting principles for adopting U.S. SFAS No. 123R	(45,976)	-	-	-
Translation adjustment	258,140	849,157	2,694,149	82,239
Adjustment from changes in ownership percentages of investees	(65,104)	15,867	1,014	31
Unrealized gain (loss) on available-for-sale financial assets	486,314	(13,882)	(450,261)	(13,744)
Unrealized loss on cash flow hedging financial instruments	-	-	(391,695)	(11,957)
Issuance of common stock from stock options exercised by employees	464,162	962,240	237,383	7,247
Capital received in advance for stock options	384,428	491,883	3,387	103
Cash dividends	-	(6,941,011)	(9,361,728)	(285,767)
Conversion of convertible bonds	-	1,300,795	265,834	8,114
Cash dividends paid to subsidiaries	-	271,945	535,100	16,334
Capital surplus from accrued interest on convertible bonds	-	728,254	-	-
Adjustment upon adoption of FIN 48	-	(24,154)	-	-
Adjustment related to treasury stock arising from changes in ownership percentage of subsidiaries	-	145,468	(3,271,523)	(99,863)
Effects of U.S. GAAP adjustments on equity method	-	(310,690)	314,929	9,613

investees				
Unrecognized pension cost	(1,621)	12,525	(223,885)	(6,834)
Unrecognized pension cost on adoption of U.S. SFAS No. 158	(613,362)	-	-	-
Defined benefit pension plan adjustment	-	(26,153)	(601,630)	(18,365)
Acquisition of treasury stock	-	-	(1,099,989)	(33,577)
Balance, end of year	60,584,053	70,101,406	65,303,020	1,993,377

F-62

Table of Contents

The following U.S. GAAP condensed consolidated balance sheets as of December 31, 2007 and 2008, and consolidated statements of income for the years ended December 31, 2006, 2007 and 2008 have been derived from the audited consolidated financial statements and reflect the adjustments presented above.

	December 31		
	2007	2008	
	NT$	NT$	US$
Current assets	56,902,021	46,366,851	1,415,349
Long-term investments	3,045,425	2,842,701	86,774
Property, plant and equipment, net	80,036,599	82,694,497	2,524,252
Intangible assets	5,255,787	12,940,638	395,014
Other assets	3,766,680	3,963,509	120,986
Total assets	149,006,512	148,808,196	4,542,375
Current liabilities	36,992,344	25,267,300	771,285
Long-term debts	23,936,009	51,622,187	1,575,768
Other liabilities	3,527,514	4,512,989	137,760
Total liabilities	64,455,867	81,402,476	2,484,813
Minority interest in consolidated subsidiaries	14,449,239	2,102,700	64,185
Equity attributable to shareholders of the parent	70,101,406	65,303,020	1,993,377
Total liabilities and shareholders' equity	149,006,512	148,808,196	4,542,375

	Year Ended December 31			
	2006	2007	2008	
	NT$	NT$	NT$	US$
Net revenues	100,423,647	101,163,069	94,430,912	2,882,506
Cost of revenues	73,366,954	75,134,707	73,109,934	2,231,683
Gross profit	27,056,693	26,028,362	21,320,978	650,823
Operating expenses	10,113,817	11,108,707	10,820,666	330,301
Income from operations	16,942,876	14,919,655	10,500,312	320,522
Net non-operating income (expense)	1,448,498	71,382	(1,351,194)	(41,245)
Income from continuing operations before income tax	18,391,374	14,991,037	9,149,118	279,277
Income tax expense	1,980,734	3,262,434	2,503,482	76,419
Income before cumulative effect of changes in accounting principles	16,410,640	11,728,603	6,645,636	202,858
Cumulative effect of changes in accounting principles	(296,527)	-	-	-
Minority interest in net income of subsidiaries	(1,991,417)	(1,797,497)	(1,153,535)	(35,212)
Net income	14,122,696	9,931,106	5,492,101	167,646

The Company applies ROC SFAS No. 17, “Statement of Cash Flows”. Its objectives and principles are similar to those set out in the U.S. SFAS No. 95, “Statement of Cash Flows” (“U.S. SFAS No. 95”). Summarized cash flow data by operating, investing and financing activities in accordance with U.S. SFAS No. 95 are as follows:

Table of Contents

	Year Ended December 31			
	2006	2007	2008	
	NT$	NT$	NT$	US$
Net cash inflow (outflow) from:				
Operating activities	37,280,483	27,471,750	30,129,594	919,706
Investing activities	(22,099,944)	(18,108,361)	(36,359,167)	(1,109,863)
Financing activities	(12,551,518)	(7,653,859)	14,461,587	441,441
Net increase in cash and cash equivalents	2,629,021	1,709,530	8,232,014	251,284
Cash and cash equivalents, beginning of year	13,263,788	15,730,075	17,157,935	523,746
Effect of exchange rate changes	(162,734)	(281,670)	748,981	22,862
Cash and cash equivalents, end of year	15,730,075	17,157,935	26,138,930	797,892

The significant reclassifications for U.S. GAAP cash flow statements pertain to bonuses to employees, directors and supervisors shown in the operating activities under U.S. GAAP as opposed to financing activities under ROC GAAP.

As discussed in Note 3, the bonuses to employees, directors and supervisors were recorded as an expense starting January 1, 2008. Therefore, the reclassification of the bonus expense will no longer be required for the cash flow statement from 2009.

33. ADDITIONAL DISCLOSURES REQUIRED BY U.S. GAAP

a. Recently issued accounting standards

On January 1, 2008, the Company adopted U.S. SFAS No. 157, “Fair Value Measurements” (“U.S. SFAS No. 157”), which defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. U.S. SFAS No. 157 does not require any new fair value measurements, but provides guidance on how to measure fair value by providing a fair value hierarchy used to classify the source of the information. The adoption of U.S. SFAS No. 157 did not have a material impact on the Company’s consolidated financial position and results of operations.

In February 2008, the FASB issued FASB Staff Position (“FSP”) 157-2, “Effective Date of FASB Statement No. 157” (“FSP 157-2”), which delays the effective date of U.S. SFAS No. 157 to January 1, 2009, for all non-financial assets and non-financial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). The Company believes that the adoption of the delayed items of U.S. SFAS No. 157 will not have a material impact on the Company’s consolidated financial position or results of operations.

In October 2008, the FASB issued FSP 157-3, “Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active” (“FSP 157-3”), which clarifies the application of U.S. SFAS No. 157 in a market that is not active and provides an example to illustrate key considerations in determining the fair value of a financial asset when the market for that financial asset is not active. The Company believes the adoption of FSP 157-3 will not have a

material impact on the Company's consolidated financial position and results of operations.

In April 2009 the FASB issued FSP 157-4, "Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly" ("FSP 157- 4"), which clarifies the application of U.S. SFAS No. 157 when there is no active market or where the price inputs being used represent distressed sales. Additional guidance is provided regarding estimating the fair value of an asset or liability (financial and nonfinancial) when the volume and level of activity for the asset or liability have significantly decreased and identifying transactions that are not orderly. FSP 157-4 will be effective for interim and annual periods ending after June 15, 2009. The Company believes the adoption in fiscal 2009 will not have a material impact on the Company's consolidated financial position and results of operations.

Table of Contents

In February 2007, the FASB issued U.S. SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities- Including an amendment of FASB Statement No.115" ("U.S. SFAS No. 159"). This statement permits companies to choose to measure eligible items at fair value at specified election dates and report unrealized gains and losses in earnings at each subsequent reporting date on items for which the fair value option has been elected. The objective of this statement is to improve financial reporting by providing companies with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. Companies may decide whether to elect the fair value option for each eligible item on its election date, subject to certain requirements described in the statement. This statement is effective beginning January 1, 2008. The Company did not elect the fair value option for any eligible financial asset of liability.

In December 2007, the FASB issued U.S. SFAS No. 141R, "Business Combination" ("U.S. SFAS No. 141R") and U.S. SFAS No. 160, "Non-controlling Interests in Consolidated Financial Statements- an amendment of ARB No. 51" ("U.S. SFAS No. 160"). U.S. SFAS No. 141R requires most of the assets acquired and liabilities assumed in the business combination to be measured at fair value as of the acquisition date. In addition, the net assets of non-controlling interests' share of the acquired subsidiaries should be recognized at fair value. U.S. SFAS No. 160 requires the Company to include non-controlling interests as a separate component of shareholders' equity, instead of liability or temporary equity. U.S. SFAS No. 141R is effective for business combinations consummated on or after January 1, 2009 and U.S. SFAS No. 160 is effective beginning January 1, 2009. The adoption of U.S. SFAS No. 141R will change the accounting treatment of the Company for business combinations on a prospective basis. The Company believes the adoption of U.S. SFAS No. 160 has no material impact on its consolidated financial position or results of operations.

In March 2008, the FASB issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities - an amendment of FASB Statement No. 133" ("U.S. SFAS No. 161"), which requires additional disclosures about the objectives of derivative instruments and hedging activities, the method of accounting for such instruments under U.S. SFAS No. 133 and its related interpretations, and a tabular disclosure of the effects of such instruments and related hedged items on our financial position, financial performance, and cash flows. U.S. SFAS No. 161 is effective beginning January 1, 2009. The Company believes the adoption of U.S. SFAS No. 161 will not have a material impact on its consolidated financial position or results of operations.

b. Pension

Set forth below is pension information about the defined benefit plans disclosed in accordance with U.S. SFAS No. 132R:

	Year Ended December 31			
	2006	2007	2008	
	NT$	NT$	NT$	US$
Components of net periodic benefit cost				
Service cost	267,351	382,371	333,538	10,182
Interest cost	89,761	86,490	107,726	3,288
Expected return on plan assets	(34,777)	(37,312)	(46,788)	(1,428)
Amortization	7,697	10,955	14,185	433
Curtailment gain on pension	-	-	(4,177)	(128)

Net periodic benefit cost	330,032	442,504	404,484	12,347

(Continued)

Table of Contents

	Year Ended December 31			
	2006	2007	2008	
	NT$	NT$	NT$	US$
Changes in benefit obligation				
Benefit obligation at beginning of year	4,006,601	4,474,962	4,851,185	148,083
Service cost	376,027	382,371	333,538	10,182
Interest cost	88,341	86,490	107,726	3,288
Initial adoption of U.S. SFAS No. 158	31,691	-	-	-
Curtailment gain on settlement	(29,327)	(13,562)	(4,177)	(128)
Actuarial gain	250,851	112,780	650,236	19,848
Benefits paid	(285,063)	(245,692)	(274,252)	(8,372)
Exchange loss	35,841	53,836	109,543	3,344
Benefit obligation at end of year	4,474,962	4,851,185	5,773,799	176,245
Change in plan assets				
Fair value of plan assets at beginning of year	1,421,105	1,657,132	2,132,706	65,101
Actual return (loss) on plan assets	51,438	41,577	(144,737)	(4,418)
Employer contribution	224,678	485,244	153,370	4,682
Benefits paid	(41,740)	(48,285)	(93,653)	(2,859)
Translation adjustment	1,651	(2,962)	8,095	247
	1,657,132	2,132,706	2,055,781	62,753
Funded status	2,817,830	2,718,479	3,718,018	113,492

(Concluded)

Actuarial assumptions:

	December 31		
	2006	2007	2008
Discount rate	2.25% to 4.70%	2.25% to 4.90%	2.00% to 4.90%
Increase in future salary level	2.50% to 5.00%	2.50% to 5.00%	2.50% to 5.00%
Expected rate of return on plan assets	2.50% to 2.75%	2.50% to 3.00%	2.25% to 2.50%

The Company has no other post-retirement or post-employment benefit plans.

c. Marketable securities

At December 31, 2007 and 2008, marketable securities by category were as follows:

	December 31								
	2007			2008					
	Carrying Amount	Fair Value	Unrealized Holding Gains	Carrying Amount		Fair Value		Unrealized Holding Losses (Within One Year)	
	NT$	NT$	NT$	NT$	US$	NT$	US$	NT$	US$
Trading									
Open-end mutual funds	1,599,353	1,599,353	-	-	-	-	-	-	-
Quoted stocks	-	-	-	536,427	16,375	536,427	16,375	-	-
Available-for-sale									
Open-end mutual funds	9,292,448	9,292,448	72,661	-	-	-	-	-	-
Government and corporate bonds	88,874	88,874	-	100,000	3,052	100,000	3,052	-	-
Quoted stocks	25,005	25,005	3,701	179,812	5,489	179,812	5,489	(7,389)	(226)
	11,005,680	11,005,680	76,362	816,239	24,916	816,239	24,916	(7,389)	(226)

F-66

Table of Contents

As of December 31, 2008, the maturity date of the government and corporate bonds is December 24, 2015.

The Company uses the average cost method for trading securities and available-for-sale securities when determining their cost basis. Proceeds from sales of available-for-sale securities for the years ended December 31, 2006, 2007 and 2008 were NT$7,518,738 thousand, NT$11,825,157 thousand and NT$ 16,714,277 thousand (US$510,204 thousand), respectively. Net realized gains on these sales for the years ended December 31, 2006, 2007 and 2008 were NT$56,748 thousand, NT$111,586 thousand and NT$132,021 thousand (US$4,030 thousand), respectively. The other than temporary or realized loss on impairment of available-for-sale financial assets was nil for the years ended December 31, 2006 and 2007. For the year ended December 31, 2008, the other than temporary or realized loss on impairment of available-for-sale financial assets was NT$149,954 thousand (US$4,578 thousand).

d. Employee stock option plans

Effective January 1, 2006, the Company adopted the fair value recognition provisions of U.S. SFAS No. 123R, using the modified prospective transition method and therefore has not restated results for prior periods. Under this transition method, stock-based compensation expense for the year ended December 31, 2006 included stock-based compensation expense for all share-based payment awards granted prior to but not yet vested as of January 1, 2006, based on the grant-date fair value estimated in accordance with the original provision of U.S. SFAS No. 123. In addition, the stock-based compensation expense also includes the intrinsic value of certain outstanding share-based awards for which it was not possible to reasonably estimate their grant-date fair value under the requirement of U.S. SFAS No. 123. Stock-based compensation expense for all share-based payment awards granted after January 1, 2006 is based on the grant-date fair value estimated in accordance with the provision of U.S. SFAS No. 123R. The Company recognizes these compensation costs using the graded vesting method over the requisite service period of the award, which is generally a five-year vesting period. The adoption of U.S. SFAS No. 123R resulted in a cumulative gain from a change in accounting principle of $45,976 thousand, which reflects the net cumulative impact of estimating future forfeitures in the determination of period expense, rather than recording forfeitures when they occur as previously permitted. Prior to the adoption of U.S. SFAS No. 123R, the Company accounted for awards granted by ASE Inc. under the intrinsic value method prescribed by APB 25 and related interpretations, and provided the required pro forma disclosures prescribed by U.S. SFAS No. 123, as amended. In March 2005, the SEC issued Staff Accounting Bulletin No. 107 (“SAB 107”) regarding the SEC’s interpretation of U.S. SFAS No. 123R and the value of share-based payments for public companies. The Company has applied the provisions of SAB 107 in its adoption of U.S. SFAS No. 123R.

In December 2007, the SEC issued Staff Accounting Bulletin No. 110 (“SAB 110”), which amends the SEC’s views discussed in SAB 107 regarding the use of the simplified method in developing estimates of the expected life of stock options in accordance with U.S. SFAS No. 123R. The amendment allowed the continued use, subject to specific criteria, of the simplified method in estimating the expected life of stock options granted after December 31, 2008. No employee stock options have been issued since 2008.

As a result of adopting U.S. SFAS No. 123R, income before income taxes and net income for the year ended December 31, 2006 were lower by NT$16,614 thousand and NT$12,640 thousand, respectively, than if the Company had continued to account for stock-based compensation under APB 25.

Information regarding the Company’s stock option plans is as follows:

ASE Inc. and ASE Mauritius Inc. Option Plan

Information regarding these employee stock option plans is provided in Note 22.

Table of Contents

ASE Test Option Plan

As discussed in Note 22, all ASE Test employee stock options were exercised or forfeited as of December 31, 2008.

Information regarding the Option Plans of ASE Test's option plan is presented below (in U.S. dollars):

	Number of Shares	Weighted Average Exercise Price Per Share	Weighted Average Grant Date Fair Value	Aggregate Intrinsic Value (In Thousands)
Outstanding options at January 1, 2006	10,491,064	10.37		
Options granted	130,000	9.60	$ 5.32	
Options exercised	(79,201)	8.56		
Options forfeited	(216,825)	11.60		
Options expired	-	-		
Outstanding options at December 31, 2006	10,325,038	10.34		
Options granted	-	-	$ -	
Options exercised	(1,200,503)	8.98		
Options forfeited	(401,363)	14.00		
Options expired	-	-		
Outstanding options at December 31, 2007	8,723,172	10.36		
Options granted	-	-	$ -	
Options exercised	(8,085,352)	9. 69		
Options forfeited	(637,820)	18.92		
Options expired	-	-		
Outstanding options at December 31, 2008	-	-		$ -
Exercisable options at December 31, 2008	-	-		$ -

Total intrinsic value of options exercised for the years ended December 31, 2006, 2007 and 2008 was US$76 thousand, US$4,952 thousand and US$40,074 thousand, respectively.

ASE Test has used the fair value based method (based on the Black-Scholes model) to evaluate the options granted with the following assumptions:

	Year Ended December 31		
	2006	2007	2008
Risk-free interest rate	3.88%-4.88%	3.88%-4.88%	-
Expected life	3-5 years	3-5 years	-
Expected volatility	59.06%-62.03%	59.06%-62.03%	-
Expected dividend yield	-	-	-

Table of Contents

e. In accordance with U.S. SFAS No. 130, "Reporting Comprehensive Income", the statements of comprehensive income for the years ended December 31, 2006, 2007 and 2008 are presented below:

	Year Ended December 31			
	2006	2007	2008	
	NT$	NT$	NT$	US$
Net income based on U.S. GAAP	14,122,696	9,931,106	5,492,101	167,646
Translation adjustments on subsidiaries, net of income tax expense of NT$64,535 thousand, NT$212,289 thousand and NT$664,064 thousand (US$20,271 thousand) in 2006, 2007 and 2008, respectively	193,605	636,868	1,992,193	60,812
Unrealized gain (loss) on financial instruments	486,314	(13,882)	(841,956)	(25,701)
Unrecognized pension cost	(1,621)	(13,628)	(825,515)	(25,199)
Comprehensive income	14,800,994	10,540,464	5,816,823	177,558

f. Goodwill

On January 1, 2002, the Company adopted U.S. SFAS No. 142, which requires that goodwill no longer be amortized, and instead, be tested for impairment on at least an annual basis. In conjunction with the implementation of U.S. SFAS No. 142, the Company completed a goodwill impairment review as of January 1, 2002 using a fair-value based approach in accordance with the provision of the standard and found no impairment.

As of December 31, 2007 and 2008, the Company had goodwill of NT$3,711,570 thousand and NT$9,804,680 thousand (US$299,288 thousand), respectively, primarily from the reporting units of the testing operation.

Changes in the carrying amount of goodwill for the years ended December 31, 2007 and 2008, by reporting units, were as follows:

	Packaging	Testing	Investing and Other	Total	
	NT$	NT$	NT$	NT$	US$
Balance as of January 1, 2007	843,172	1,999,647	511,908	3,354,727	102,403
Goodwill acquired	327,285	36,365	-	363,650	11,100
Translation adjustment	(426)	(6,307)	(74)	(6,807)	(208)
Balance as of December 31, 2007	1,170,031	2,029,705	511,834	3,711,570	113,295
Goodwill acquired	315,657	5,780,726	-	6,096,383	186,092
Translation adjustment	5,370	(8,845)	202	(3,273)	(99)

Balance as of December 31, 2008	1,491,058	7,801,586	512,036	9,804,680	299,288

Table of Contents

g. Earnings per share

U.S. SFAS No. 128 requires the presentation of basic and diluted earnings per share. Basic earnings per share was computed based on the weighted average number of common shares outstanding during the year. Diluted earnings per share included the effect of dilutive potential common shares (such as stock options issued calculated using the treasury stock method).

The following table presents the calculation of basic and diluted earnings per share:

	Year Ended December 31			
	2006	2007	2008	
	NT$	NT$	NT$	US$
Basic EPS				
Net income	14,122,696	9,931,106	5,492,101	167,646
Effect of ASE Test and ASE Mauritius Inc.'s stock option plans	(1,663)	(20,185)	(42,696)	(1,303)
Interest on convertible bonds, net of tax	168,993	139,635	-	-
Diluted EPS				
Net income	14,290,026	10,050,556	5,449,405	166,343
Weighted average outstanding shares (in thousands)				
Basic	5,202,736	5,317,695	5,368,718	
Effect of dilutive securities	302,793	248,423	36,562	
Diluted	5,505,529	5,566,118	5,405,280	

For the years ended December 31, 2006, 2007 and 2008, no options or convertible bonds were excluded from the calculation of diluted EPS.

The denominator used for purposes of calculating earnings per ADS was the above-mentioned weighted average outstanding shares divided by five (one ADS represents five common shares). The numerator was the same as mentioned in the above EPS calculation.

h. In accordance with FIN 48 disclosure requirements, the following table summarizes the activity related to the gross unrecognized tax benefits for the years ended December 31, 2007 and 2008:

	Year Ended December 31		
	2007	2008	
	NT$	NT$	US$
Balance, beginning of year	16,105	18,405	562
Increase related to prior year tax positions	-	-	-
	2,300	1,415	43

Increase decrease related to current year tax positions			
Balance, end of year	18,405	19,820	605

Upon adoption of FIN 48, the Company recorded interest expense and penalties as interest expense and other non-operating expense, respectively. For the years ended December 31, 2007 and 2008, the total amount of interest expense and penalties related to tax uncertainty was approximately NT$4,887 thousand and NT$4,614 thousand (US$141 thousand), respectively. The total amount of interest and penalties recognized as of December 31, 2007 and 2008 was NT$12,810 thousand and NT$17,424 thousand (US$532 thousand), respectively.

Table of Contents

i. Fair Value Disclosure

On January 1, 2008, the Company adopted U.S. SFAS No. 157, which defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements.

U.S. SFAS No. 157 defines fair value as the price that would be received upon sale of an asset or paid upon transfer of a liability in an orderly transaction between market participants at the measurement date and in the principal or most advantageous market for that asset or liability. The fair value should be calculated based on assumptions that market participants would use in pricing the asset or liability, not on assumptions specific to the Company.

In addition to defining fair value, U.S. SFAS No. 157 expands the disclosure requirements around fair value and establishes a fair value hierarchy for valuation inputs. The hierarchy prioritizes the inputs into three levels based on the extent to which inputs used in measuring fair value are observable in the market. Each fair value measurement is reported in one of the three levels which is determined by the lowest level input that is significant to the fair value measurement in its entirety. These levels are:

Level 1 – Use unadjusted quoted prices in active markets for identical assets or liabilities.

Level 2 – Use observable inputs other than Level 1 prices such as quoted prices for identical or similar instruments in markets that are not active, quoted prices for similar instruments in active markets, and model-based valuation in which all significant inputs are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 – Use inputs that are generally unobservable and reflect the use of significant management judgments and estimates.

The following section describes the valuation methodologies we use to measure financial assets and liabilities at fair value.

For investments other than forward exchange contracts, interest rate swap contracts and swap contracts, the Company uses quoted prices in active markets for identical assets to determine fair value where applicable. This pricing methodology applies to our Level 1 investments such as government bonds and quoted stocks. If quoted prices in active markets for identical assets are not available, then the Company uses quoted prices that are observable and can be corroborated with other observable market data for identical assets in less active markets. These investments are included in Level 2 and consist primarily of derivative contracts. For the year ended December 31, 2008, none of the Company’s financial assets’ fair value was determined by using significant unobservable inputs and classified as Level 3.

For forward exchange contracts, interest rate swap contracts and swap contracts, fair values are estimated using industry standard valuation models. These models use market-based observable inputs including interest rate curves, foreign exchange rates, and forward and spot prices for currencies to project fair value. The forward and cross currency swap contract financial assets and liabilities are included in Level 2.

The following table presents our assets and liabilities measured at fair value on a recurring basis as of December 31, 2008:

F-71

Table of Contents

	Level 1		Level 2		Level 3		Total	
	NT$	US$	NT$	US$	NT$	US$	NT$	US$
Assets								
Derivative financial assets								
Forward exchange contracts	-	-	1,053	32	-	-	1,053	32
Marketable securities - trading								
Quoted stocks	536,427	16,375	-	-	-	-	536,427	16,375
Marketable securities - available-for-sale								
Government and corporate bonds	100,000	3,052	-	-	-	-	100,000	3,052
Quoted stocks	179,812	5,489	-	-	-	-	179,812	5,489
	816,239	24,916	1,053	32	-	-	817,292	24,948
Liabilities								
Derivative financial liabilities								
Swap contracts	-	-	61,257	1,870	-	-	61,257	1,870
Forward exchange contracts	-	-	21,410	654	-	-	21,410	654
Interest rate swap contract	-	-	391,904	11,962	-	-	391,904	11,962
	-	-	474,571	14,486	-	-	474,571	14,486

The table below sets out the balances for those assets required to be measured at fair value on a nonrecurring basis and the associated losses recognized during the year ended December 31, 2008:

	December 31, 2008		Level 1		Level 2		Level 3		Total Losses	
	NT$	US$	NT$	US$	NT$	US$	NT$	US$	NT$	US$
Assets										
Financial assets carried at cost	575,495	17,567	-	-	-	-	575,495	17,567	21,395	653
Bond investments with no active market	450,000	13,736	-	-	-	-	450,000	13,736	-	-
Total	1,025,495	31,303	-	-	-	-	1,025,495	31,303	21,395	653

The Company reviews the carrying values of financial assets carried at cost when impairment indicators are present. Due to the absence of quoted market price, the fair values are determined significantly based on management judgment with the best information available. The Company calculates these fair values using the

market approach which includes recent financing activities, valuation of comparable companies, technology development stage, market condition and other economic factors as their fair value inputs. When the market approach is not available, the Company uses the income approach which includes the discounted cash flow and other economic factors as inputs.

In accordance with the provisions of FSP 157-2, certain non-financial assets measured at fair value on a non-recurring basis are not subject to these fair value measurement requirements until January 1, 2009. These non-financial assets include non-financial assets and non-financial liabilities measured at fair value in the second step of a goodwill impairment test, as well as intangible assets and other non-financial long-lived assets measured at fair value for impairment assessment.