IR

POWERING THE NEXT GENERATION

INTERNATIONAL RECTIFIER ANNUAL REPORT 1999

IR provides enabling technologies for products that work smarter, run cooler, and raise the world's productivity-per-watt.

IR is powering the next generation of servers and computers, cars, satellites, and home appliances. We're setting *performance and architecture standards* for power electronics across a broad spectrum, and we're lengthening our competitive lead.

- We make variable-speed operation practical and affordable for everything from conveyor belts to washing machines.
- We allow laptop computers to run longer.
- We're raising the bar for vehicle performance and fuel economy with electronic steering and a host of other advances.

IR.

Powering the next generation.

LETTER TO OUR SHAREHOLDERS

At the beginning of a new fiscal year, we will take this opportunity to put our performance and our prospects in a strategic framework. IR is setting performance and architecture standards for power electronics across a very broad spectrum and lengthening our lead on the competition. We provide the enabling technology for products that add greatly to productivity-per-watt.

The world's largest industry is electronics, and over the long term, global demand for power electronics makes IR's role more important and our contribution more valuable. But the last few years were tough ones for the semiconductor industry, and they took their toll.

IR acted aggressively to cut costs above and below the line. We lowered our breakeven by $100 million over the last two years and kept operations in the black. And we moved decisively to limit our exposure to future industry cycles. We positioned the company to generate a flow of highly-differentiated products that add value in key applications and support our 20-percent growth target.

We brought on a dedicated development facility that gave us submicron capabilities and unprecedented cycle-times. The investment is paying off: Technology development accelerated, achieving cost and performance enhancements across the full range of IR's transistor line and generating a flow of new products that set performance standards and system architectures for target applications.

- New low-voltage trench MOSFETs sharply increase switching efficiency in portable electronic equipment. A chipset combining benchmark trench and planar parts earned IR the premiere position in the industry's most demanding application – portable systems incorporating Intel's new Pentium® III microprocessors.
- Market take-up on our newest transistors for advanced digital cell phones is excellent, and we expect revenues in this area to more than double in fiscal 2000.
- Our new high-voltage MOSFETs combine multiple technologies to deliver best-in-class performance in power supplies for high-end servers and routers that provide the backbone of the internet. We just began sampling, and customer interest is intense.
- Home appliances hit IR's revenue screen for the first time in fiscal 1999. Leading US, European, and Asian manufacturers designed IR's proprietary high-voltage control ICs and IGBTs into high-end refrigerators and washers, and a major American brand accelerated adoption of our proprietary chipset.
- High-performance intelligent power switches, proprietary Power ICs, and proprietary modules won designs in electronic steering, fan controls, and diesel fuel injection. Several of these designs ramp into volume production in fiscal 2000.
- Proprietary IC chipsets will go into volume production in dimmable electronic lighting this calendar year.

The strength of IR's proprietary technology and intellectual property continued to figure as a valuable strategic advantage. Several more competitors entered into license agreements under our power MOSFET patents, and the royalties generated by our licenses provided a welcome buffer for earnings in a year that pushed many semiconductor companies into losses.

As of this writing, business conditions continue to improve: Industry leadtimes are stretching for high-volume MOSFETs and diodes. Pricing is firming and returning to historical norms. Key distributors' sales of IR products

to their customers set records for the last two quarters. Our backlog is growing, and IR's broad competitive advantages are generating market share gains and design wins in target applications.

These signs of industry recovery, our competitive advantages, and continued operating discipline add up to a very positive view for fiscal 2000. We continue to drive efficiencies above and below the line, and cost reductions this year are planned to total more than 10 percent of projected revenue. We expect to grow revenue by approximately 20 percent and add several percentage points of gross margin. With tightly-controlled SG&A expenses, we plan to reduce the ratio of spending-to-revenue substantially by year-end. We target R&D spending at approximately 6.5 percent of revenues and plan capital expenditures of about $60 million in fiscal 2000. Based on the expected rate of market growth this year, IR has in place the financial resources, installed manufacturing capacity, and commitments from designated foundry and subcontractors to meet our needs.

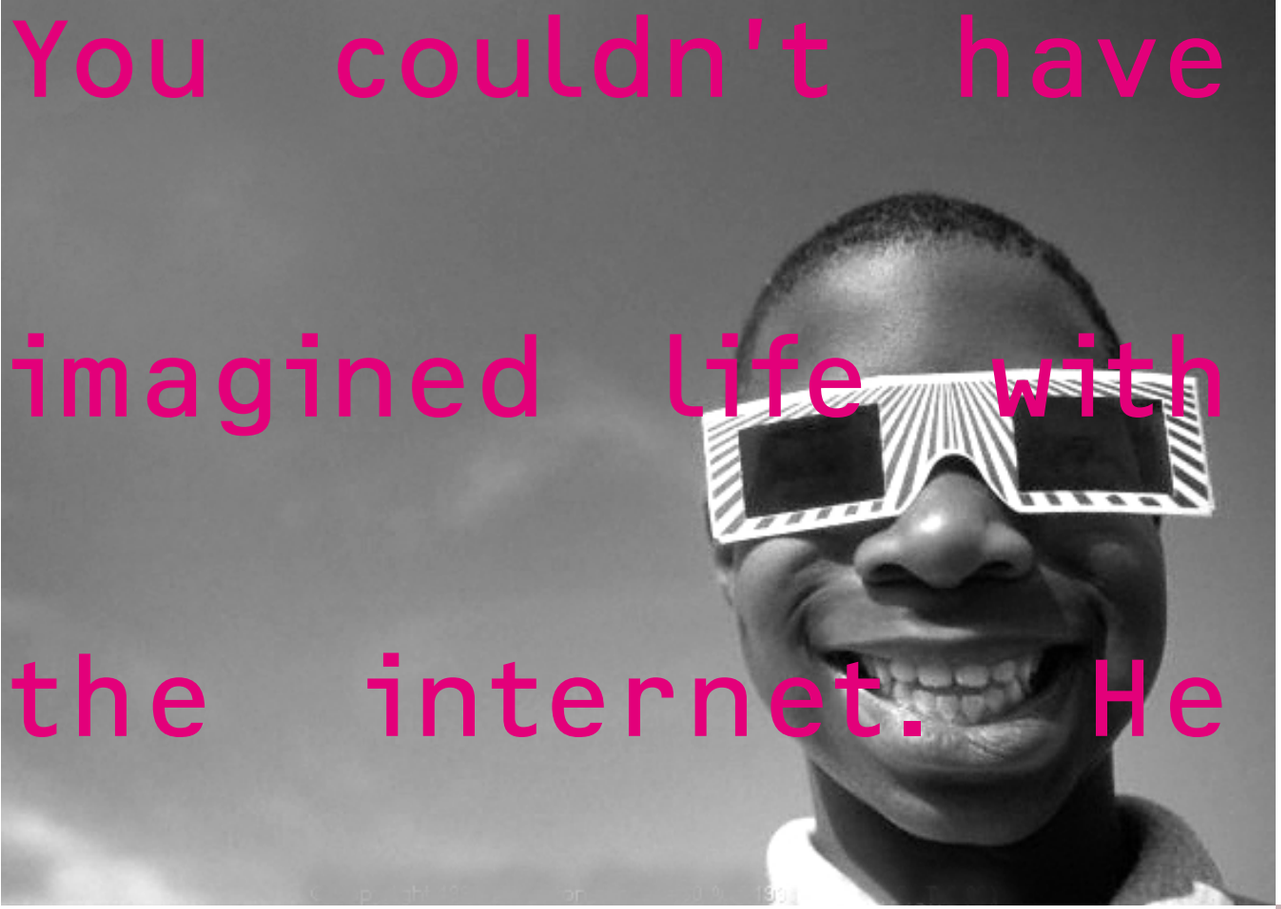
As this long-awaited industry recovery unfolds, we are confident that IR has the products, position, and cost structure to expand our market opportunities, grow revenue and profits, and build shareholder value.

Eric Lidow
Chairman

Alexander Lidow
Chief Executive Officer

IR.

Powering the next generation.



You couldn't have imagined life with the internet. He can't imagine life without it.

POWERING THE NEXT GENERATION: INTERNET

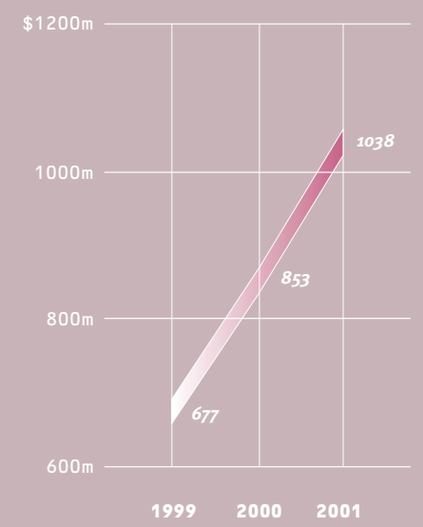
Access to the internet? The extranet? The intranet? It's now a given – as long as the *servers and routers* are up and running. And they run as long as the **power** keeps flowing smoothly. No wonder every rack on every router has multiple power supplies, and demand for power supplies – uninterruptible and otherwise – is surging. Even in peak traffic conditions, advanced power MOSFETs enable **ever-smaller** power circuits to remain cool, calm, and collected.

The first company to meet the latest standard for server power supplies got there using benchmark power MOSFETs and diodes from IR.

UNINTERRUPTIBLE POWER SUPPLIES

Projected semiconductor content

SOURCE: Electronic Outlook Corp.



POWERING THE NEXT GENERATION: PORTABLE ELECTRONICS

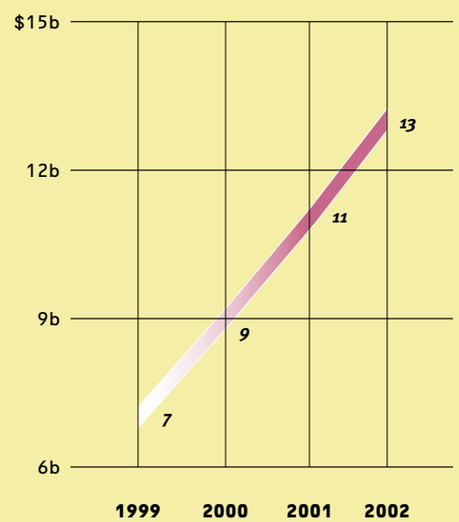
No question about it, the latest cell phones, laptops, and PDAs are pretty slick. But in the fast-paced world of portable electronics, today's hot item is tomorrow's relic. We don't know whether the next killer application will be a phone that acts like a computer, a computer that acts like a phone, or a wrist TV that reads your mind. We do know it will operate at lower voltage. It will have **distributed power**. And it will depend on advancements in low-voltage power MOSFETs to pick up speed, run longer, and pack in more **functionality** per sq cm.

A chipset combining benchmark trench and planar MOSFETs earned IR the premiere position in portable systems incorporating Intel's new Pentium® III microprocessors.

LAPTOP PCs

Projected semiconductor content

SOURCE: Electronic Outlook Corp.



By the time she's taking business trips, her laptop will be powerful enough to fly the plane.

In twenty years, her kitchen appliances will house more semiconductors than your home office does today.

POWERING THE NEXT GENERATION: HOME APPLIANCES

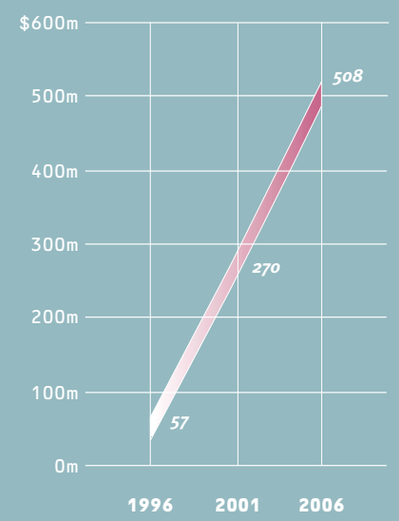
If you don't believe it, check out today's high-end white goods. This year's biggest splash in washing machines came from a unit that runs quieter, treats clothes better, and uses *much less electricity* and water than last year's model. Situated at the heart of the design is a motor that relies on advanced power ICs and transistors to turn DSP commands into variable-speed, reversible action. At home and at work, the same **architecture** is turning dumb motors into smart machines.

A leading Japanese industrial firm adopted IR's architecture to control motors used everywhere from video arcades to shipyards.

REFRIGERATORS AND WASHERS

Estimated electronic module content

SOURCE: Freedonia Group and IR



POWERING THE NEXT GENERATION: AUTOMOBILES

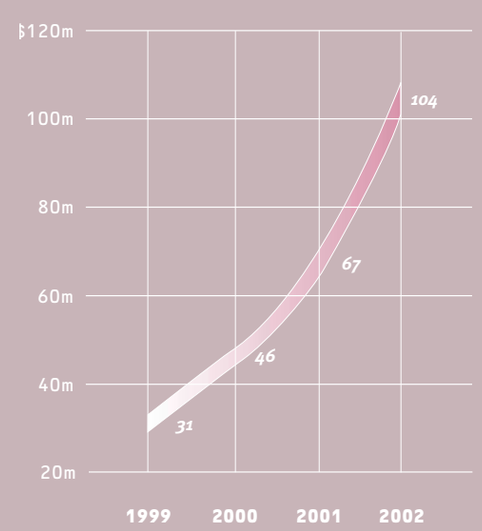
Can you even remember window cranks in cars? Mirrors you adjusted by hand? When was the last time you drove a car that didn't have anti-lock brakes? *The power features* you've come to expect are just the beginning. Power electronics are changing in even more fundamental ways: combining starter and alternator motors into one versatile unit, **replacing** hydraulic power steering with electronic systems, and using **ultra-reliable electronic** motors in place of troublesome belts and pulleys.

Auto suppliers on three continents selected benchmark IR MOSFETs and modules for their electronic power steering programs.

ELECTRONIC POWER STEERING

Projected semiconductor content

SOURCE: Dataquest and Strategy Analytics



By the time he gets his license, cars will have more in common with the space shuttle than with your SUV.

Chances are, the light bulbs that illuminate his first office will outlast the job.

POWERING THE NEXT GENERATION: LIGHTING

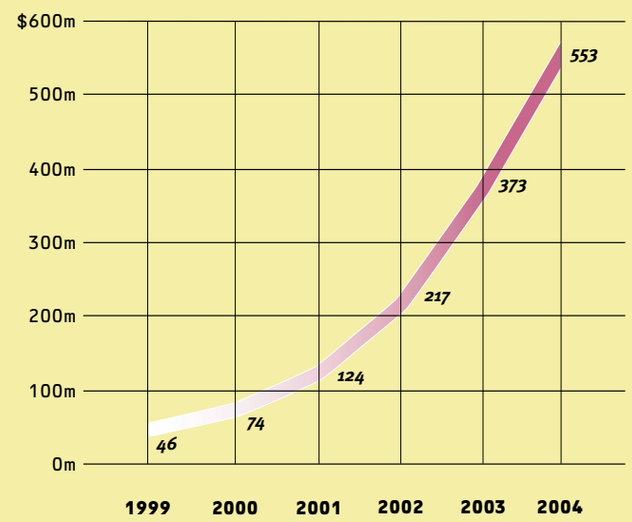
Electronic bulbs already on the market today last longer than some start-ups. And they cut energy use by up to 75 percent in an application that consumes about a quarter of the world's electricity. Now IR's *proprietary technology* lets restaurants, retailers, churches, and concert halls get the efficiency and long life of electronic fluorescent ballasts plus **dimming** capability to set the mood, highlight the merchandise, or bring down the house. You'll also find our proprietary ICs powering the rich hues and crisp images that make LCD displays so hard-to-resist when PC buyers *trade* **up**. Power ICs from IR even turn up in HID (High Intensity Discharge) headlights that give drivers that precious extra measure of safety and reliability.

A new patented power IC from IR will make its movie debut in the industry's most advanced lighting system, giving the designer unparalleled control from full radiance all the way down to the faintest light the camera can capture.

DESKTOP PC LCD MONITORS

SOURCE: Darnell Group and IR

Projected power semiconductor content



Cautionary Statement

Under the Private Securities Litigation Reform Act of 1995

This Annual Report contains some statements that are not historical facts but are "forward-looking statements" as that term is defined in the Private Securities Litigation Reform Act of 1995. These statements can be identified by the use of forward-looking terminology such as "anticipate," "believe," "estimate," "expect," "may," "should," "view," or "will" or the negative or other variations thereof. Such forward-looking statements are subject to risks and uncertainties which could cause actual results to differ materially from those projected. Financial results are to a large extent dependent on the power MOSFET segment of the power semiconductor industry. If market demand does not continue to grow, revenue growth may be impacted, manufacturing capacity might be under-utilized, capital spending might be slowed, and Company performance might be negatively impacted. Other risks and uncertainties that could negatively impact Company results include: delays in or higher-than-anticipated expenses associated with implementing planned cost reductions; the effectiveness of cost controls; the impact of changes in accounting methods; the impact of export controls; the actual results of outstanding litigation; changes in environmental laws and regulations; delays in transferring and ramping production lines or completing customer qualifications; the accuracy of customers' forecasts; the ability of current manufacturing facilities to meet future operating needs; the rate of customer inventory adjustments; push-out of delivery dates; product returns; changes in customers' order patterns; the Company's mix of product shipments; the actual growth of the portable electronics industry; the continued rapid growth of demand for more efficient semiconductor components and power conversion solutions; market and sector conditions that affect our customers, licensees, and suppliers; pricing pressures; acceptance of competitors' products; introduction, acceptance, and availability of new products; inability of the Company to fund capital expenditures from existing credit facilities or other external sources; the ability of suppliers and subcontractors to meet their delivery commitments to the Company; unanticipated impacts on the Company's business or financial condition due to the euro conversion; the failure of the Company to realize the anticipated efficiencies from its change in management structure; impact on the Company's business from internal systems, or from the business or systems of suppliers, customers, licensees and other third parties being adversely affected by year 2000 problems; and general economic conditions in the Company's markets around the world.

(In thousands except per share amounts)	Fiscal Years Ended June 30, 1999	1998	1997	1996	1995
Operations Results					
Revenues	$545,371	$551,891	$486,127	$576,849	$429,026
Gross profit	151,992	176,164	163,060	225,803	150,824
Operating profit (loss)	(11,233)	32,371	(49,389)	96,707	48,388
Income (loss) before cumulative effect of accounting change	20,376	16,475	(43,206)	66,479	39,398
Cumulative effect of change in accounting principle, net of income tax benefit of $5,431	(26,154)	—	—	—	—
Net income (loss)	(5,778)	16,475	(43,206)	66,479	39,398
Net income (loss) per common share – Basic [1]	$ (0.11)	$ 0.32	$ (0.84)	$ 1.31	$ 0.85
Net income (loss) per common share – Diluted [1]	$ (0.11)	$ 0.32	$ (0.84)	$ 1.29	$ 0.84
Financial Position [2]					
Current ratio	2.2	2.1	2.8	2.8	2.2
Total assets	709,085	735,827	679,753	629,079	496,184
Long-term debt, less current maturities	158,418	141,528	143,164	47,994	23,881
Stockholders' equity	396,274	399,650	381,715	421,213	345,181

[1] *Adjusted to reflect the two-for-one stock split declared on November 20, 1995.*

[2] *Certain reclassifications have been made to previously reported amounts to conform with current-year presentation.*

RESULTS OF OPERATIONS

The following table sets forth certain items included in selected financial data as a percentage of revenues.

	Fiscal Years Ended June 30,		
	1999	1998	1997
Revenues	100.0%	100.0%	100.0%
Cost of sales	72.1	68.1	66.5
Gross profit	27.9	31.9	33.5
Selling and administrative expense	18.0	19.0	21.8
Research and development expense	7.4	7.1	7.3
Impairment of assets, restructuring and severance charges	4.5	—	14.6
Operating profit (loss)	(2.0)	5.8	(10.2)
Interest expense, net	(2.0)	(1.3)	(0.8)
Other income (expense), net	9.8	(0.1)	0.1
Income (loss) before income taxes and cumulative effect of accounting change	5.8	4.4	(10.9)
Provision (benefit) for income taxes	2.1	1.4	(2.0)
Income (loss) before cumulative effect of accounting change	3.7	3.0	(8.9)
Cumulative effect of change in accounting principle	(4.8)	—	—
Net income (loss)	(1.1)%	3.0%	(8.9)%

1999 Compared with 1998

Fiscal 1999 was a 52-week year compared to a 53-week year in fiscal 1998. Revenues for fiscal 1999 were $545.4 million, slightly lower than fiscal 1998 revenue of $551.9 million. Net patent royalties contributed $26.5 million to revenue, compared to $17.2 million in the prior period. During fiscal 1999, IR's global pricing averaged an 8% decline compared to a 14% drop in the prior period.

In fiscal 1999, product sales by region (based on the location of the customer) were approximately 42% from North America, 24% from Europe and 34% from Asia, which includes Japan and Asia Pacific, compared to 47%, 26% and 27%, respectively, in fiscal 1998. Year-to-year, revenue in Japan decreased by 8.5% but increased in Asia Pacific by 35.4%, reflecting a partial economic recovery and the Company's penetration into new market segments in the Asian market. Europe was down 10.1% year-to-year, with weakness in most market segments. Revenue in North America decreased 12.4% year-to-year, reflecting distributors' efforts to reduce their inventories and the shift of some U.S. based customers' assembly operations to locations in Asia.

Unit shipments increased 28 percent year-to-year. The revenue comparison over the same period reflects price pressure and a shift to smaller, lower-priced products, particularly in Asian markets.

Gross profit was $152.0 million (27.9% of revenues) in fiscal 1999, versus $176.2 million (31.9% of revenues) in fiscal 1998. The year-to-year gross profit comparison reflected intense industry-wide price declines, unfavorable fluctuations in product mix, and certain other expenses: a $2.5 million inventory write-down associated with the transfer of manufacturing lines as part of a restructuring program, and $2.7 million related to the adoption of Statement of Position ("SOP") 98-5 ("Reporting on the Costs of Start-up Activities"). Total cost of sales reflected the substantial increase in unit shipments to meet rising demand.

In an effort to offset price pressure, the Company substantially reduced unit costs and achieved approximately $53 million in manufacturing cost reductions in fiscal 1999. Cost reduction measures included re-negotiation of prices paid for materials and subcontract manufacturing services and process changes that benefited manufacturing yields, as well as increased utilization of the Company's production capacity.

Selling and administrative expense was $98.2 million (18.0% of revenues) in fiscal 1999 versus $104.7 million (19.0% of revenues) in fiscal 1998. The improvement in absolute dollars and as a percent of sales reflects initiatives to increase the productivity of selling and administrative activities as well as the benefit of restructuring programs.

In fiscal 1999, research and development expenditures increased $1.4 million to $40.5 million (7.4% of revenues) from $39.1 million (7.1% of revenues) in the prior period. Higher research and development expenses for fiscal 1999 reflect accelerated development of new products, as well as higher overhead costs associated with a new research and development facility. The Company expects this increased development activity to yield significant new products.

In the second and third quarters of fiscal 1999, the Company took restructuring charges totaling $18.7 million. The charges are associated with streamlining worldwide sales and administration and with the transfer of high-volume assembly lines from the Company's operation in England to its facility in Mexico. This total charge consisted of an inventory write-down of $2.5 million and a $16.2 million restructuring charge consisting of $10.1 million in estimated severance costs and $6.1 million for the write-down of related assets. The Company expects to generate savings of $5 million in fiscal 2000 and savings of approximately $13 million annually thereafter when these restructuring activities are fully implemented. IR expects the savings resulting from these activities to reduce product cost and selling and administrative expense as a percentage of sales.

During June 1999, the Company recorded an $8.3 million charge related to employee severance associated with the elimination of approximately 39 positions. This severance consisted of costs due to the resignation of Dr. Derek B. Lidow, who shared the responsibility of Chief Executive Officer, and a reduction in sales and administrative management and staff levels.

Other income was $53.5 million in fiscal 1999, compared to other expense of $0.5 million in fiscal 1998. Other income primarily consisted of proceeds from license agreements for prior periods and amounts in settlement of litigation for past patent infringement (net of legal costs and the share of the Company's royalty proceeds payable to Unitrode Corporation).

In fiscal 1999, net interest expense increased $3.8 million from the prior year. The increase was due to higher interest expense incurred on higher average debt balances over the prior year, which were partially offset by increases in interest income on investments.

The Company reported a non-cash, after-tax charge of $26.2 million associated with the early adoption of SOP 98-5, an AICPA-mandated change in accounting practices for certain start-up and preoperating costs. Such costs had previously been deferred and amortized by the Company.

Net realized and unrealized foreign currency gains and losses were less than $1 million in each year.

1998 Compared with 1997

Fiscal 1998 was a 53-week year compared to a 52-week year in fiscal 1997. Revenues for fiscal 1998 increased 14% to $551.9 million from $486.1 million in the prior year. Unit shipments increased 38 percent, but the revenue increase was partially offset by a $12.3 million unfavorable fluctuation in currency exchange rates and an approximate average 14% price reduction on the Company's products. The price decline reflected the impact of Asian economic conditions and efforts by customers and distributors to reduce channel inventories. Net patent royalties contributed $17.2 million to revenue, compared to $20.3 million in the prior period. Royalties are based on licensees' sales of products covered by IR's patents, which the Company believes declined as a result of economic and business conditions, currency exchange rates and fluctuations in product mix.

Gross profit was $176.2 million (31.9% of revenues) in fiscal 1998 versus $163.1 million (33.5% of revenues) in fiscal 1997. The gross profit decline reflects pricing and market conditions described above. During the fourth quarter of fiscal 1997, the Company recorded a $75.0 million pre-tax charge related to a restructuring program designed to improve its competitive position and accelerate growth and earnings by streamlining operations and administration.

Selling and administrative expense was $104.7 million (19.0% of revenues) in fiscal 1998 versus $106.0 million (21.8% of revenues) in fiscal 1997. Reductions in selling and administrative expenses reflect management's continued efforts to control spending and to administer its activities more efficiently.

In fiscal 1998, the Company's research and development expenditures increased $3.6 million to $39.1 million (7.1% of revenues) from $35.5 million (7.3% of revenues) in the prior period. Higher research and development expenses reflect higher overhead costs associated with a new research and development facility and the Company's increased development of new products.

In fiscal 1998, net interest expense increased $3.3 million from the prior year. The increase was due to higher interest expense incurred on higher average debt balances over the prior year, which were partially offset by small increases in interest income on investments and interest capitalized on construction-in-progress.

Net realized and unrealized foreign currency gains and losses were less than $1 million in each year.

Seasonality

The Company has experienced moderate seasonality in its business in recent years. On average over the past three years, the Company has reported approximately 48% of annual revenues in the first half and 52% in the second half of its fiscal year.

Liquidity and Capital Resources

At June 30, 1999, the Company maintained cash and cash equivalent balances and short-term investments of $31.5 million and $8.9 million, respectively. During the twelve-month period ended June 30, 1999, operating activities increased cash by $97.2 million, including amounts received for royalty settlements. The Company reduced inventories by $19.7 million, excluding $2.5 million for restructuring charges, as the result of planned lower production rates.

Net investing activities consumed $58.4 million, primarily due to capital expenditures of $71.6 million. At June 30, 1999, the Company had made purchase commitments for capital expenditures of approximately $10.1 million. Assuming existing market conditions, the Company plans fiscal 2000 capital investments of approximately $60 million, principally for fabrication and assembly capacity to meet market demand. The Company intends to fund capital expenditures and working capital requirements through cash and cash equivalents on hand, anticipated cash flow from operations, and, as needed, from funds available from a term loan and revolving credit facility and equipment financing facilities. Although the Company believes that funding will be sufficient, the Company may also consider the use of funds from other external sources including, but not limited to, public or private offerings of debt or equity.

Cash used in financing activities consumed $40.1 million. In June 1999, the Company entered into a syndicated Credit Agreement with Banque Nationale de Paris. The financing consists of two term loans totaling $155 million due in 2004 and 2005 and a $70 million revolver. The proceeds from the term loans were used to pay down all of the Company's existing long-term unsecured bank loans and substantially all domestic bank loans. As of June 30, 1999, $155 million had been borrowed against these two term loans. The interest rate on these two term loans is based on 3.0% and 3.5% above the applicable LIBOR rate. The loans are collateralized by the majority of the Company's assets. The Credit Agreement subjects the Company to a number of restrictive covenants, including the following: (a) maximum leverage, minimum interest coverage and fixed charge coverage ratios (b) minimum EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization) (c) maximum capital expenditures and (d) a limitation on losses. The Credit Agreement also restricts the Company with respect to the payment of cash dividends, the sale of assets, mergers and acquisitions, additional financing, and investments. The Company also had $23.9 million in foreign revolving lines of credit and $5.7 million in foreign term loans, against which $20.7 million had been borrowed. Equipment financing facilities of $5.5 million were fully utilized. In total, the Company had credit facilities of $260.1 million, against which $181.5 million had been borrowed.

Based on cash and cash equivalents on hand, short-term investments and available financing, at June 30, 1999, the Company's liquidity was $119.3 million.

Three class action lawsuits have been brought against the Company and its Board of Directors (see "Legal Proceedings"). Although the Company believes that these class action lawsuits are without merit, the ultimate outcome and the related effect on liquidity thereof cannot be presently determined. Accordingly, the Company has not made any provision for any liability, if any, that may result upon adjudication of these matters. For the possible effects of environmental matters on liquidity, see "Business – Environmental Matters."

Quantitative and Qualitative Disclosures about Market Risk

The Company is exposed to various risks including changes in interest rates affecting the repayment of debt and return on investments and foreign currency rate fluctuations. The Company does not hold or purchase any foreign currency or interest rate contracts for trading purposes. The Company's objective in managing the exposure to foreign currency changes is to reduce the risk to earnings and cash flow by entering into forward exchange contracts which are intended to reduce risks associated with the value of its existing foreign currency assets, liabilities, firm commitments and anticipated foreign revenues and costs. The gains and losses on these contracts are intended to offset changes in the related exposures. The Company does not hedge its foreign currency exposure in a manner that would entirely eliminate the effects of changes in foreign exchange rates on the Company's consolidated net income.

In the normal course of business, the Company also faces risks that are either nonfinancial or nonquantifiable. Such risks principally include country risk, credit risk and legal risk and are not discussed or quantified in the following analyses.

Interest Rate Risk

The financial assets of the Company are not subject to significant interest rate risk due to their short duration. The financial liabilities of the Company that are subject to interest rate risk are its long-term debt obligations as of June 30, 1999 (see Note 2 of the Notes to the Consolidated Financial Statements). As of June 30, 1999, the Company does not use any derivatives or similar instruments to manage its interest rate risk. A 70 basis-point increase in interest rates (approximately 10% of the Company's weighted average interest rate on debt) affecting the Company's financial instruments would have an immaterial effect on the Company's results of operations, financial position or cash flows. As of June 30, 1999, the Company signed a credit agreement that will require the use of an interest rate hedging instrument starting in fiscal 2000.

Foreign Currency Risk

The Company conducts business in various parts of the world and in various foreign currencies. The Company manages potential foreign currency exposure by entering into forward foreign exchange contracts or other non-speculative risk management instruments to hedge foreign currency denominated receivables and payables at certain of its international subsidiaries. At year-end, the Company evaluated the effect that near-term changes in foreign exchange rates would have had on the fair value of the Company's combined foreign currency position, related to its outstanding foreign currency forward exchange contracts. If the Company assumed an adverse change of 10% in foreign exchange rates, the potential decrease in the Company's foreign currency position would have had an immaterial effect on the Company's results of operations, financial position and cash flows.

In fiscal 1999, over 58% of the Company's revenues were derived from sales in foreign markets. The fair market value of foreign currency forward contracts was $43.9 million at June 30, 1999. Net realized and unrealized foreign currency gains and losses were less than $1 million for each of the years ended June 30, 1999, 1998 and 1997, respectively.

Impact of the Introduction of the Eurodollar

On January 1, 1999, eleven member states of the European Union established fixed conversion rates between their existing national currency and a common currency, the "euro." Until January 1, 2002, either the euro or the participating country's present currency will be accepted as legal currency. On January 1, 2002, euro-denominated bills and coins will be issued and the participating country's present currency will no longer be accepted as legal tender and will be withdrawn from circulation.

The Company has initiated an internal analysis to determine the effects of the January 1, 1999 conversion. The current assessment includes the potential impact of the technical challenges to adapt information technology and other systems to accommodate euro-denominated transactions, the impact on currency exchange rate risk and currency exchange costs, and the impact on existing contracts.

Based on currently available information, management does not believe that the euro conversion will have a material adverse impact on the Company's business or financial condition. The Company will continue to evaluate the impact of the euro conversion.

Income Taxes

The Company's effective tax rate in fiscal 1999 was approximately 34.6% due primarily to the increase in valuation allowance, higher statutory tax rates in certain foreign jurisdictions and foreign jurisdiction losses without foreign tax benefit, offset by foreign tax credits, research and development credits and state tax credits. The difference between the U.S. federal statutory tax rate of 35.0% and the Company's effective tax rate (benefit) of approximately 33.0% and (18.0)% in fiscal 1998 and 1997, respectively, was attributable mainly to foreign jurisdiction losses offset by foreign tax credits and state tax credits for 1998 and foreign jurisdiction losses without foreign tax benefits and accruals for additional tax for 1997.

Impairment of Assets, Restructuring and Severance Charges

Due to a continuous decline in selling prices for its MOSFET and IGBT products, during the fourth quarter of fiscal 1997, the Company recorded a $75 million pretax charge related to a restructuring program designed to improve the Company's cost structure. Specifically, the restructuring activities included shifting production from older manufacturing facilities to newer, more efficient facilities, changing business processes by consolidating order entry, customer support, inventory management, information systems and finance activities at fewer locations and accelerating the deployment of the Company's new product development center. The restructuring activities were expected to reduce the cost of the Company's business processes and lower product costs and result in increased flow of new products, which are less price sensitive. The charge was composed of $61 million for the write-down of assets, $4 million for the write-down of inventory, primarily wafers, to net realizable value and $10 million for termination benefits to be paid in connection with the severed employees. The restructuring activities occurred over an approximate eighteen-month transition period through December 31, 1998.

The asset write-down of property and equipment of $61 million was determined by comparing the expected future undiscounted cash flows to the respective asset carrying value. If an asset was deemed to be impaired, the carrying value was adjusted to its expected future discounted cash flows. The net book value of the applicable property and equipment prior to the $61 million write-down was $79 million. The write-downs related to the following:

1) Wafer fabrication equipment located in El Segundo, California with a carrying value of $21 million, was adjusted to its fair value of $2 million. One wafer fabrication line, dedicated primarily to research and product development, was abandoned and replaced by a new product development facility in August 1998. The other wafer fabrication line, which manufactured product using equipment that processed 4-inch wafers, was abandoned and replaced with a more advanced line located in Italy, which processes 5-inch wafers, in August 1998. Using 5-inch wafers results in significant manufacturing savings. The current status of the wafer fabrication impaired equipment falls into three categories: a) it was scrapped as of June 1997, b) it is idle with no viable plans for usage, or c) it is being used on a sporadic basis in research and development. There is no viable external market for this equipment.

2) Assembly equipment in England of $26 million was adjusted to its fair value of $4 million. Specifically, three product assembly and packaging lines in England were operating at a gross margin loss. The Company has continued to utilize these lines periodically for market development activities, and these lines remain unprofitable.

3) Information systems applications with a carrying value of $32 million were written down to $12 million as a result of lack of vendor support. The Company's software vendor changed business strategies and informed the Company of its intention to stop supporting and developing the software technology that certain of the Company's information systems applications were based upon. It was determined in June 1997, that no viable alternatives could be identified. As a result of this decision, the Company ceased development and implementation of certain forecasting, planning and order management programs and determined the assets related to these specific activities were impaired (i.e. no future use and were abandoned). These assets consisted of costs related to external consulting fees and expenses. The remaining book value relates to modules that have not been abandoned.

As of June 30, 1999, the Company had eliminated approximately 242 employees related to the June 1997 restructuring. The majority of the positions eliminated were operators and technicians at the Company's North American operations. The Company also eliminated production and assembly positions in its manufacturing operations in Italy due to the outsourcing of certain production and assembly activities. In addition, administrative and sales positions in France, England, Germany, Japan and North America, related to the regional consolidation of certain administrative functions, were eliminated.

As of June 30, 1999, there was no remaining accrued severance liability in the Company's Consolidated Balance Sheet related to the June 1997 restructuring.

The Company anticipated this restructuring to result in annual savings of approximately $20 million, which would be fully achieved on an annual basis beginning in December 1998. The Company believes that it has achieved these savings, but they have been more than offset by continued selling price reductions.

During December 1998, the Company recorded a $14.5 million restructuring charge associated with plans to relocate high-volume assembly lines from its facility in England to its facility in Mexico to take advantage of labor rate savings, and to centralize more of its European customer service and administrative activities, resulting in reductions in personnel. The Company expects to complete this operational transition over the next twelve months ending on June 30, 2000. The charge consisted of $5.9 million for estimated severance costs associated with the elimination of approximately 350 positions, primarily consisting of operators and technicians, $6.1 million for the write-off of assets to be abandoned, and $2.5 million for the write-down of inventory related to specialty product lines. None of the assets written down, which consist primarily of building improvements relating to the high volume assembly production lines, and production information systems, will remain in use and all of them will be abandoned after the production lines are relocated. In the third quarter of fiscal 1999, the Company recorded a final charge of $4.2 million relating to additional severance costs, after appropriate notification was given to 43 remaining affected employees in the sales, customer service and administrative areas. The severance per person is larger for the March 1999 restructuring versus the December 1998 restructuring as the 43 positions included in the March 1999 restructuring are primarily highly-paid employees in sales and administrative management. The 350 positions in the December 1998 restructuring are primarily operators and technicians who have a much lower salary level. Therefore, the Company estimates that, ultimately, charges associated with all of these actions will total approximately $18.7 million.

The anticipated cost savings from the second and third fiscal 1999 quarter restructuring activities are expected to result in estimated annual savings of approximately $5 million in fiscal 2000 and $13 million annually thereafter. These estimated savings consist of lower direct labor costs, lower factory overhead (including lower depreciation expense), lower materials costs and lower selling and administrative costs.

As of June 30, 1999, the Company had eliminated 17 positions, paid $2.8 million for termination benefits related to this program and recorded the asset impairment of $8.6 million. The remaining unutilized restructuring accrual of $7.3 million, which is classified as current, relates to severance payments to these previously notified employees for positions that are scheduled to be eliminated during the next twelve months.

During June 1999, the Company recorded an $8.3 million charge related to employee severance associated with the elimination of approximately 39 positions. This includes a reduction in sales and administrative management staff levels and the resignation of Dr. Derek B. Lidow, who shared the responsibility of Chief Executive Officer. As of June 30, 1999, the Company had eliminated 4 positions and paid $3.5 million for termination benefits. The remaining unutilized severance accrual of $4.8 million at June 30, 1999, which is classified as current, relates to severance payments to these previously notified employees for positions that are scheduled to be eliminated during the next twelve months.

Recent Accounting Pronouncements

The Company elected early adoption of SOP 98-5, "Reporting on the Costs of Start-Up Activities," during fiscal 1999. This new accounting standard, issued in April 1998 by the American Institute of Certified Public Accountants, requires most entities to expense all start-up and preoperating costs as they are incurred. The Company previously deferred such costs and amortized them over the life of the related asset following the start-up of each new process. The early adoption of SOP 98-5 was required to be made retroactive to the beginning of the Company's first quarter of fiscal 1999. The cumulative effect of this change in accounting principle, net of income tax benefit of $5.4 million, was $26.2 million or $0.50 per basic and diluted share and was recorded retroactively to the first quarter of 1999 as a one-time charge. Beginning July 1, 1998, all start-up and preoperating costs are expensed as incurred.

Effective July 1, 1998, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 130, "Reporting Comprehensive Income," and accordingly has included a separate Statement of Comprehensive Income following the Company's Consolidated Statement of Income. Comprehensive income generally represents all changes

in stockholders' equity during the period except those resulting from investments by, or distributions to, stockholders. The balance of accumulated other comprehensive income consists of accumulated foreign currency translation adjustments.

On June 30, 1997, the Financial Accounting Standards Board ("FASB") issued SFAS No. 131 "Disclosures about Segments of an Enterprise and Related Information." SFAS No. 131 requires publicly-held companies to report financial and descriptive information about its operating segments in financial statements issued to stockholders for interim and annual periods. The Statement also requires additional disclosures with respect to products and services, geographic areas of operation and major customers. SFAS No. 131 is effective for fiscal years beginning after December 15, 1997 and requires restatement of earlier periods presented. The Company adopted SFAS No. 131 in the fiscal year ended June 30, 1999. The adoption of SFAS No. 131 did not affect the Company's results of operations or financial position, but did affect the disclosure of segment information as presented in Note 5 of the Notes to the Consolidated Financial Statements.

In February 1998, the FASB issued SFAS No. 132 "Employers' Disclosures about Pensions and Other Postretirement Benefits." SFAS No. 132 supersedes the disclosure requirements for SFAS No. 87 "Employers' Accounting for Pensions," SFAS No. 88 "Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans," and SFAS No. 106 "Employers' Accounting for Postretirement Benefits Other than Pensions." This Statement is effective for fiscal years beginning after December 15, 1997. This Statement revises employers' disclosures about pension and postretirement benefit plans. The Company adopted SFAS No. 132 in the fiscal year ended June 30, 1999. The Company's pension obligation is immaterial and, therefore, not disclosed separately.

In June 1998, the FASB issued SFAS No. 133 "Accounting for Derivative Instruments and Hedging Activities," which was later amended by SFAS No. 137 "Accounting for Derivative Instruments and Hedging Activities — Deferral of the Effective Date of FASB Statement No. 133." SFAS No. 133 established standards for the accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts, and hedging activities. This Statement generally requires recognition of gains and losses on hedging instruments, based on changes in fair value or the earnings effect of a forecasted transaction. SFAS No. 133, as amended by SFAS No. 137, is effective for all fiscal quarters of fiscal years beginning after June 15, 2000. Management does not believe that SFAS No. 133 or SFAS No. 137 will have a material impact on the Consolidated Financial Statements.

Year 2000 Readiness

The Year 2000 issue is the result of many existing computer programs and embedded microprocessors using only two digits to refer to the year. Beginning in the year 2000, these systems will need to be upgraded or replaced to distinguish 21st century dates from 20th century dates.

The Company has adopted the definition of Year 2000 conformity published by the British Standards Institute ("BSI") as DISC PD2000-1. Currently, none of the Company's products contain date processing logic. The Company, therefore, believes that its products are Year 2000 compliant pursuant to the BSI DISC PD2000-1 definition.

The Company's Global Year 2000 Team was formed to manage and coordinate company-wide Year 2000 initiatives, while local site teams address research and remediation for site-specific equipment, facilities and suppliers. Worldwide, the Company currently employs approximately 65 employees that are addressing the Year 2000 issue, 15 of whom are engaged in this effort on a full-time basis. The Company is currently estimating $7.7 million for the cost of investigation and remediation for the period August 1997 to March 2000. The estimate includes staff salaries and remediation expenses. Through June 30, 1999, the Company has expensed $5.6 million of this estimate.

The Company prioritized efforts to prepare its information systems for Year 2000 based on the importance of each system to the Company's operations and the potential impact of non-compliance. The Company is remediating its information systems in phases, by first establishing an inventory of its information systems and then assessing, correcting, testing, and certifying them for compliance. As of May 31, 1999 and in accordance with the Company's project plan, corrective actions have been deployed for all mission critical items. Having achieved the May 31st milestone for mission critical items, the Company's project remains on schedule and the Company expects to complete its remediation efforts for non-critical items on or before November 30, 1999. Furthermore, the Company has established programs to ensure that current and future purchases of equipment and software are Year 2000 compliant pursuant to the BSI DISC PD2000-1 definition.

As of May 31, 1999, the Company has completed all remediation activity to determine Year 2000 readiness status for mission critical suppliers and business partners, including financial institutions with whom the Company has material relationships. Furthermore, the Company has in place contingency plans for mission critical suppliers or business partners that were not able to indicate their Year 2000 compliance or readiness. These contingency plans include the identification of possible alternate suppliers, possible alternate modes of transportation, and the identification of possible sources for an increase in raw material inventory. The remediation efforts and contingency plans for non-critical suppliers and business partners are expected to be completed on or before November 30, 1999.

Worldwide project auditing and Year 2000 certification is ongoing and to date indicates that the Company is positioned to complete the project on schedule.

Based on currently available information, management does not believe that the Year 2000 matters discussed above will have a material adverse impact on the Company's financial condition, liquidity, or results of operations. Currently, infrastructure service providers (e.g. utilities and transportation) are the areas of greatest concern. To date, interviews and research of the Company's power, water and transportation suppliers indicate that the most reasonably likely worst case scenarios would be a temporary disruption in utilities service, supplier delivery and/or shipments to customers. The Company is continuing to develop contingency plans to mitigate such scenarios in the event the Company or its material customers, suppliers or vendors are not Year 2000 compliant by January 1, 2000 and should have these plans in place on or before November 30, 1999.

There can be no assurance that the Company's compliance efforts and contingency plans will adequately address every issue that may arise in the year 2000. Embedded microprocessors that regulate the basic infrastructure in various Company facilities may fail. The software that controls manufacturing processes may fail and shut down fabrication, assembly or packaging. The computers used in business and office operations may fail at the desktop or network level. On a broader scale, communication and power distribution may be disrupted, financial institutions may experience difficulties that prevent access to or the transfer of funds, and the transportation network, water supply and food distribution may be affected, negatively impacting employees as well as industry and commerce generally. The costs of the Company's Year 2000 remediation and the dates on which the Company believes that it will be completed are based on the Company's best estimates, which were based on assumptions of future events, including the continued availability of certain resources, third-party compliance and other factors. There can be no assurance that these estimates will be achieved, and actual results could differ materially from those anticipated.

The disclosures contained herein are Year 2000 statements and constitute a Year 2000 Readiness Disclosure under Public Law No. 105-271.

SEC Comment Letter

In response to recent communications the Company has had with the Securities and Exchange Commission ("SEC") staff, the Company has agreed to make certain amendments to its Form 10-K for the fiscal year ended June 30, 1998 and its Form 10-Q for the quarter ended December 31, 1998. The Company believes that these amendments do not have a material impact on its financial results for either fiscal 1998 or the second quarter of fiscal 1999. See the Company's amended filings with the SEC for further information.

Management Change

On May 10, 1999, the Company announced that it would change its management structure by designating Dr. Alexander Lidow as its sole Chief Executive Officer. Dr. Alexander Lidow previously shared the responsibilities of Chief Executive Officer with Dr. Derek B. Lidow. Dr. Derek B. Lidow remains on the Company's Board of Directors and will provide consulting services to the Company but terminated his employment with the Company on June 15, 1999 to pursue other interests. See Note 15 in the Notes to the Consolidated Financial Statements. The Company believes that this new structure will help achieve its long-range objectives by, among other things, streamlining decision making, more tightly linking the Company's activities, and allowing further operating efficiencies.

Consolidated Statements of Operations

(In thousands except per share amounts)	Fiscal Years Ended June 30, 1999	1998	1997
Revenues	$545,371	$551,891	$486,127
Cost of sales	393,379	375,727	323,067
Gross profit	151,992	176,164	163,060
Selling and administrative expense	98,193	104,661	105,954
Research and development expense	40,512	39,132	35,495
Impairment of assets, restructuring and severance charges (Note 4)	24,520	—	71,000
Operating profit (loss)	(11,233)	32,371	(49,389)
Other income (expense):			
Interest, net	(11,120)	(7,288)	(4,015)
Other, net	53,509	(494)	714
Income (loss) before income taxes and cumulative effect of accounting change	31,156	24,589	(52,690)
Provision (benefit) for income taxes (Note 6)	10,780	8,114	(9,484)
Income (loss) before cumulative effect of accounting change	20,376	16,475	(43,206)
Cumulative effect of change in accounting principle, net of income tax benefit of $5,431	(26,154)	—	—
Net income (loss)	$ (5,778)	$ 16,475	$ (43,206)
Net income (loss) per common share – Basic and Diluted:			
Income (loss) before cumulative effect of change in accounting principle	$ 0.39	$ 0.32	$ (0.84)
Cumulative effect of change in accounting principle	(0.50)	—	—
Net income (loss) per common share – Basic and Diluted (Note 7)	$ (0.11)	$ 0.32	$ (0.84)
Average common shares outstanding – Basic (Note 7)	51,612	51,248	51,307
Average common shares and potentially dilutive securities outstanding - Diluted (Note 7)	51,788	51,674	51,307

The accompanying notes are an integral part of this statement.

Consolidated Statement of Comprehensive Income

(In thousands)	Fiscal Years Ended June 30, 1999	1998	1997
Net income (loss)	$(5,778)	$16,475	$(43,206)
Other comprehensive income (loss), net of tax effect of $305, $903 and $(146), respectively:			
Foreign currency translation adjustments	(579)	(1,835)	666
Comprehensive income (loss)	$(6,357)	$14,640	$(42,540)

The accompanying notes are an integral part of this statement.

Consolidated Balance Sheet

(In thousands except share amounts)	June 30, 1999	1998
Assets		
Current assets:		
Cash and cash equivalents	$ 31,497	$ 32,294
Short-term investments	8,900	13,232
Trade accounts receivable, less allowance for doubtful accounts ($2,168 in 1999 and $1,401 in 1998)	121,659	129,738
Inventories	108,463	130,653
Deferred income taxes (Note 6)	16,078	8,080
Prepaid expenses and other receivables	19,677	3,253
Total current assets	306,274	317,250
Property, plant and equipment, at cost, less accumulated depreciation ($252,707 in 1999 and $208,879 in 1998)	380,504	390,892
Other assets	22,307	27,685
Total assets	$709,085	$735,827
Liabilities and stockholders' equity		
Current liabilities:		
Bank loans (Note 2)	$ 14,996	$ 28,153
Long-term debt, due within one year (Note 2)	8,047	37,226
Accounts payable	64,809	46,637
Accrued salaries, wages and commissions	19,546	15,875
Other accrued expenses	33,234	26,042
Total current liabilities	140,632	153,933
Long-term debt, less current maturities	158,418	141,528
Other long-term liabilities	7,142	29,352
Deferred income taxes (Note 6)	6,619	11,364
Commitments and contingencies (Notes 9, 10, 11, 13, 14 and 15)		
Stockholders' equity (Notes 1 and 3):		
Common shares, $1 par value, authorized: 60,000,000; issued and outstanding: 51,780,700 shares in 1999 and 51,350,923 shares in 1998	51,781	51,351
Preferred shares, $1 par value, authorized: 1,000,000; issued and outstanding: none in 1999 and 1998	—	—
Capital contributed in excess of par value of shares	257,746	255,195
Retained earnings	92,868	98,646
Accumulated other comprehensive loss	(6,121)	(5,542)
Total stockholders' equity	396,274	399,650
Total liabilities and stockholders' equity	$709,085	$735,827

The accompanying notes are an integral part of this statement.

Consolidated Statement of Stockholders' Equity

(In thousands except share amounts)	COMMON SHARES	CAPITAL CONTRIBUTED IN EXCESS OF PAR VALUE OF SHARES	RETAINED EARNINGS	ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)	TOTAL
Balance, June 30, 1996	$50,821	$249,388	$125,377	$(4,373)	$421,213
Issuance of common shares:					
48,440 – exercise of stock options	49	342	—	—	391
182,190 – stock purchase plan	182	2,306	—	—	2,488
Tax benefits from exercise of stock options and stock purchase plan	—	163	—	—	163
Net loss for the year ended June 30, 1997	—	—	(43,206)	—	(43,206)
Foreign currency translation adjustments	—	—	—	666	666
Balance, June 30, 1997	51,052	252,199	82,171	(3,707)	381,715
Issuance of common shares:					
82,361 – exercise of stock options	82	528	—	—	610
216,655 – stock purchase plan	217	2,181	—	—	2,398
Tax benefits from exercise of stock options and stock purchase plan	—	287	—	—	287
Net income for the year ended June 30, 1998	—	—	16,475	—	16,475
Foreign currency translation adjustments	—	—	—	(1,835)	(1,835)
Balance, June 30, 1998	51,351	255,195	98,646	(5,542)	399,650
Issuance of common shares:					
85,600 – exercise of stock options	86	549	—	—	635
344,177 – stock purchase plan	344	2,040	—	—	2,384
Adjustment to tax benefits from exercise of stock options and stock purchase plan	—	(38)	—	—	(38)
Net loss for the year ended June 30, 1999	—	—	(5,778)	—	(5,778)
Foreign currency translation adjustments	—	—	—	(579)	(579)
Balance, June 30, 1999	$51,781	$257,746	$ 92,868	$(6,121)	$396,274

The accompanying notes are an integral part of this statement.

(In thousands)	Fiscal Years Ended June 30, 1999	1998	1997
Cash flow from operating activities:			
Net income (loss)	$ (5,778)	$ 16,475	$ (43,206)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	46,162	38,937	37,103
Deferred income	(600)	(600)	(718)
Deferred income taxes	(7,231)	9,452	(15,500)
Deferred compensation	(6,888)	(1,892)	3,170
Impairment of assets, restructuring and severance charges	27,020	—	75,000
Cumulative effect of change in accounting principle	26,154	—	—
Change in working capital (Note 1)	18,373	(16,291)	(34,455)
Net cash provided by operating activities	97,212	46,081	21,394
Cash flow from investing activities:			
Additions to property, plant and equipment	(71,577)	(90,280)	(99,762)
Purchase of short-term investments	(12,900)	(47,550)	(67,000)
Proceeds from sale of short-term investments	17,232	51,168	68,150
Change in other noncurrent assets	8,862	(5,596)	(9,117)
Net cash used in investing activities	(58,383)	(92,258)	(107,729)
Cash flow from financing activities:			
Net proceeds from issuance of (repayments of) short-term bank debt	(12,727)	16,922	518
Proceeds from issuance of long-term debt	192,669	42,128	100,187
Payments on long-term debt and obligations under capital leases	(217,352)	(18,650)	(15,511)
Net proceeds from issuance of common stock	2,981	3,295	2,879
Other	(5,647)	(1,560)	(970)
Net cash provided by (used in) financing activities	(40,076)	42,135	87,103
Effect of exchange rate changes on cash and cash equivalents	450	(228)	36
Net increase (decrease) in cash and cash equivalents	(797)	(4,270)	804
Cash and cash equivalents, beginning of year	32,294	36,564	35,760
Cash and cash equivalents, end of year	$ 31,497	$ 32,294	$ 36,564

The accompanying notes are an integral part of this statement.

Note 1: Business and Summary of Significant Accounting Policies

Business

International Rectifier Corporation ("IR" or "Company") designs, manufactures, and markets power semiconductors which switch or condition electricity at relatively high voltage and current levels. The Company's products are used in major market sectors including industrial, automotive, computer/peripherals, office equipment, consumer electronics, lighting and communications.

IR was founded as a California corporation in 1947 and reincorporated in Delaware in 1979.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and all its majority-owned subsidiaries which are located in Europe, Mexico, the Far East and South East Asia. All material intercompany transactions have been eliminated.

Fiscal Year

The Company operates on a fiscal calendar under which fiscal 1999 consists of 52 weeks ending July 4. Fiscal 1998 consisted of 53 weeks ending July 5 and fiscal 1997 consisted of 52 weeks ending June 29. For convenience, all references herein to fiscal years are to fiscal years ended June 30.

Revenue Recognition

The Company recognizes revenues from product sales to all customers, including distributors, at the time of shipment.

Research and Development

Research and development costs are expensed as incurred.

Advertising

The Company expenses all advertising costs in the periods in which those costs are incurred. The Company shares portions of certain distributors' advertising expenses through cooperative advertising arrangements. In fiscal 1999, 1998 and 1997, the Company spent approximately $3,928,000, $3,579,000 and $4,078,000, respectively, on advertising.

Environmental Costs

Costs incurred to investigate and remediate contaminated sites are expensed.

Income Taxes

Deferred income taxes are determined based on the difference between the financial reporting and tax bases of assets and liabilities using enacted rates in effect during the year in which the differences are expected to reverse. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized. Income tax expense is the tax payable for the period and the change during the period in deferred tax assets and liabilities.

U.S. income taxes have not been provided on approximately $24,550,000 of undistributed earnings of foreign subsidiaries since management considers these earnings to be invested indefinitely or substantially offset by foreign tax credits. It is not practicable to estimate the amount of unrecognized deferred U.S. taxes on these undistributed earnings.

Net Income (Loss) per Common Share

Net income (loss) per common share-Basic is computed by dividing net income (loss) available to common stockholders (the numerator) by the weighted average number of common shares outstanding (the denominator) during the period. The computation of Net income (loss) per common share-Diluted is similar to the computation of Net income (loss) per common share-Basic except that the denominator is increased to include the number of additional common shares that would have been outstanding if the dilutive potential common shares had been issued.

Statement of Cash Flows

The Company invests excess cash from operations in investment grade money market instruments. The Company considers all highly liquid debt instruments with a purchased maturity of three months or less to be cash equivalents. Components in the change in working capital for the fiscal years ended June 30, 1999, 1998 and 1997 were comprised of the following:

(In thousands)	1999	1998	1997
Trade accounts receivable, net	$ (1,107)	$ (8,381)	$ (929)
Inventories	15,494	(16,104)	(35,643)
Prepaid expenses and other receivables	(6,704)	(279)	764
Accounts payable	18,525	7,106	(847)
Accrued salaries, wages and commissions	3,893	1,660	791
Other accrued expenses	(11,728)	(293)	1,409
	$18,373	$(16,291)	$(34,455)

Supplemental disclosures of cash flow information:

(In thousands)	1999	1998	1997
Cash paid during the year for:			
Interest	$ 6,497	$ 7,423	$ 8,633
Income taxes	18,274	2,050	3,096
Interest capitalized	1,142	2,434	1,870

Short-Term Investments

The Company's short-term investments consist of investment grade money market instruments. All of the Company's investments have original maturities of less than one year. In accordance with the criteria established by Statement of Financial Accounting Standards ("SFAS") No. 115, "Accounting for Certain Investments in Debt and Equity Securities," all investments have been classified as "available-for-sale." The Company utilizes the specific identification method for determining the cost of the investments. At June 30, 1999 and 1998 the cost of the investments approximates the market value.

Inventories

Inventories are stated at the lower of cost (principally first-in, first-out) or market. Inventories at June 30, 1999 and 1998 were comprised of the following:

	1999	1998
Raw materials	$ 15,277	$ 21,101
Work-in-process	52,124	56,224
Finished goods	41,062	53,328
	$108,463	$130,653

Property, Plant and Equipment

Property, plant and equipment are stated at cost. Upon retirement or other disposal, the asset cost and related accumulated depreciation are removed from the accounts and any gain or loss on disposition is included in income. Depreciation is provided on the straight-line method, based on the estimated useful lives of the assets, or the units of production method based upon the estimated output of the equipment. Depreciation expense for the fiscal years ended June 30, 1999, 1998 and 1997 was $46,162,000, $38,937,000 and $34,916,000, respectively. Property, plant and equipment at June 30, 1999 and 1998 were comprised of the following:

(In thousands)	1999	1998
Buildings and improvements	$120,872	$122,904
Equipment	425,194	417,261
Construction-in-progress	76,841	49,382
Less accumulated depreciation	(252,707)	(208,879)
	370,200	380,668
Land	10,304	10,224
	$380,504	$390,892

Depreciation of improvements to leased premises is provided on the straight-line method over the shorter of the remaining term of the lease or estimated useful lives of the improvements. Capital leases included in property, plant and equipment at June 30, 1999 and 1998 were as follows:

(In thousands)	1999	1998
Equipment	$13,607	$14,263
Less accumulated depreciation	(10,882)	(9,105)
	$ 2,725	$ 5,158

Repairs and maintenance costs are charged to expense. In the fiscal years ended June 30, 1999, 1998 and 1997, repairs and maintenance costs were $16,686,000, $18,757,000 and $16,016,000, respectively.

Historically, preoperating and start-up costs incurred in connection with construction of major new production facilities were capitalized until such facilities become operational. These costs were then amortized over the lives of such facilities. Effective fiscal 1999, preoperating and start-up costs are expensed as incurred in accordance with SOP 98-5, as described more fully in the Recent Accounting Pronouncements section of Note 1 of the Consolidated Financial Statements.

Long-Lived Assets

The Company identifies and records impairment losses on long-lived assets when events and circumstances indicate that such assets might be impaired. The Company periodically evaluates the recoverability of its long-lived assets based on expected undiscounted cash flows and recognizes impairments, if any, based on expected discounted cash flows.

Intangible Assets

Patent and related costs are amortized using the straight-line method over the life of the related patent portfolio.

Concentration of Risk

The Company places its temporary cash investments with high credit quality financial institutions. At times, such investments may be in excess of insured limits.

The Company performs periodic credit evaluations of its customers' financial condition and generally does not require collateral. Receivables on average are due in 60 days. Credit losses have consistently been within management's expectations.

Financial Currency Transactions

In general, the functional currency of a foreign operation is deemed to be the local country's currency. Assets and liabilities of operations outside the United States are translated into U.S. dollars using current exchange rates. Income and expense are translated at average exchange rates prevailing during the period. The effects of foreign currency translation adjustments are included as a component of stockholders' equity. At June 30, 1999 and 1998, accumulated foreign currency translation losses were $6,121,000 and $5,542,000, respectively.

The Company hedges certain portions of its exposure to foreign currency fluctuations of foreign currency denominated receivables and payables at certain of its international subsidiaries through forward foreign exchange contracts. At June 30, 1999 and 1998, the Company had approximately $44,581,000 and $26,100,000, respectively, of forward foreign exchange contracts outstanding with fair values of $43,922,000 and $25,916,000, respectively. The fair value of foreign currency contracts is estimated based on the spot rate of the various hedged currencies as of the end of the period. Net realized and unrealized gains or losses on forward contracts for the years ending June 30, 1999 and 1998 were $287,000 and $89,000, respectively, and were included in "Other Income (Expense)." The Company does not hold or issue forward contracts for trading purposes.

At June 30, 1999 and 1998, maturities of the Company's forward foreign exchange contracts were three months or less in term.

Estimates

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

Stock-Based Compensation

The Company accounts for its stock-based compensation plans using the intrinsic value method prescribed in Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees." SFAS No. 123, "Accounting for Stock-Based Compensation," encourages, but does not require companies to record stock-based employee compensation plans at fair value. The Company has elected to continue accounting for stock-based compensation in accordance with APB No. 25 and is providing the required disclosures under SFAS No. 123 in the Notes to the Consolidated Financial Statements.

Recent Accounting Pronouncements

The Company elected early adoption of SOP 98-5, "Reporting on the Costs of Start-Up Activities," during fiscal 1999. This new accounting standard, issued in April 1998 by the American Institute of Certified Public Accountants, requires most entities to expense all start-up and preoperating costs as they are incurred. The Company previously deferred such costs and amortized them over the life of the related asset following the start-up of each new process. The early adoption of SOP 98-5 was required to be made retroactive to the beginning of the Company's first quarter of fiscal 1999. The cumulative effect of this change in accounting principle, net of income tax benefit of $5.4 million, was $26.2 million or $0.50 per basic and diluted share and was recorded retroactively to the first quarter of 1999 as a one-time charge. Beginning July 1, 1998, all start-up and preoperating costs are expensed as incurred.

Effective July 1, 1998, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 130, "Reporting Comprehensive Income," and accordingly has included a separate Statement of Comprehensive Income following the Company's Consolidated Statement of Income. Comprehensive income generally represents all changes in stockholders' equity during the period except those resulting from investments by, or distributions to, stockholders. The balance of accumulated other comprehensive income consists of accumulated foreign currency translation adjustments.

On June 30, 1997, the Financial Accounting Standards Board ("FASB") issued SFAS No. 131 "Disclosures about Segments of an Enterprise and Related Information." SFAS No. 131 requires publicly-held companies to report financial and descriptive information about its operating segments in financial statements issued to stockholders for interim and annual periods. The Statement also requires additional disclosures with respect to products and services, geographic areas of operation, and major customers. SFAS No. 131 is effective for fiscal years beginning after December 15, 1997 and requires restatement of earlier periods presented. The Company adopted SFAS No. 131 in the fiscal year ended June 30, 1999. The adoption of SFAS No. 131 did not affect the Company's results of operations or financial position, but did affect the disclosure of segment information as presented in Note 5 of the Notes to the Consolidated Financial Statements.

In February 1998, the FASB issued SFAS No. 132 "Employers' Disclosures about Pensions and Other Postretirement Benefits." SFAS No. 132 supersedes the disclosure requirements for SFAS No. 87 "Employers' Accounting for Pensions," SFAS No. 88 "Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans," and SFAS No. 106 "Employers' Accounting for Postretirement Benefits Other than Pensions." This Statement is effective for fiscal years beginning after December 15, 1997. This Statement revises employers' disclosures about

pension and postretirement benefit plans. The Company adopted SFAS No. 132 in the fiscal year ended June 30, 1999. The Company's pension obligation is immaterial and, therefore, not disclosed separately.

In June 1998, the FASB issued SFAS No. 133 "Accounting for Derivative Instruments and Hedging Activities," which was later amended by SFAS No. 137 "Accounting for Derivative Instruments and Hedging Activities — Deferral of the Effective Date of FASB Statement No. 133." SFAS No. 133 established standards for the accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts, and hedging activities. This Statement generally requires recognition of gains and losses on hedging instruments, based on changes in fair value or the earnings effect of a forecasted transaction. SFAS No. 133, as amended by SFAS No. 137, is effective for all fiscal quarters of fiscal years beginning after June 15, 2000. Management does not believe that SFAS No. 133 or SFAS No. 137 will have a material impact on the Consolidated Financial Statements.

Reclassification

Certain reclassifications have been made to previously reported amounts to conform with the current-year presentation.

Note 2: Bank Loans and Long-Term Debt

At June 30, 1999, the Company entered into a syndicated Credit Agreement with Banque Nationale de Paris as Sole Arranger, Administrative Agent and Issuing Agent and Sanwa Bank California as the Syndication Agent. The Credit Agreement included two term loans totaling $155 million due in 2004 and 2005, and a $70 million revolving credit facility. The interest rate on these two term loans is based on 3.0% and 3.5% above the applicable LIBOR rate, while the interest rate on the $70 million revolving credit facility is based on either 3.0% above the applicable LIBOR rate or 2.0% above the prime rate, as the Company may elect. The three-month LIBOR rate was 5.3% at June 30, 1999. The proceeds from the term loans were used to pay down all of the Company's domestic unsecured bank loans, and portions of foreign unsecured bank loans and domestic bank loans collateralized by equipment. At June 30, 1999, outstanding borrowings on the term loans were $155 million with a weighted average interest rate of 8.79%. At June 30, 1999 the revolving credit facility had $70 million available for borrowing. The facilities are collateralized by the majority of the Company's assets. The Company is subject to a number of restrictive covenants under the new Credit Agreement including the following: (a) maximum leverage, minimum interest coverage and fixed charge coverage ratios (b) minimum EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization) (c) maximum capital expenditures and (d) a limitation on losses. The Credit Agreement also provides for restrictions on the payment of cash dividends, the sale of assets, mergers and acquisitions, additional financing, and investments.

The Company had $5.5 million outstanding in equipment-collateralized financing facilities and $5.7 million outstanding in foreign unsecured term loans at June 30, 1999. The Company had an additional $23.9 million of unsecured revolving credit facilities from financial institutions at foreign locations, of which at June 30, 1999, $15.0 million was outstanding.

The following is a summary of the Company's long-term debt and other loans at June 30, 1999 and 1998:

(In thousands)	1999	1998
Domestic bank loans collateralized by the majority of the Company's assets, payable in quarterly installments of principal and interest at variable rates of 8.3% and 8.8%, due in 2004 and 2005	$155,213	$ —
Domestic bank loans collaterized by equipment, payable in varying monthly installments at rates from 6.4% to 8.7%, due in 1998 through 2002, paid down in 1999	—	45,599
Domestic unsecured bank loans payable in varying monthly installments	—	107,237
Capitalized lease obligations payable in varying monthly installments primarily at rates from 6.29% to 8.21.%	5,298	885
Foreign bank loans collateralized by property and/or equipment, payable in varying monthly installments at 10.8%, due in 2000	216	1,991
Foreign unsecured bank loans payable in varying monthly installments at rates from 4.3% to 8.4%, due in 2000 through 2006	5,738	23,042
Debt, including current portion of long-term debt ($8,047 in 1999 and $37,226 in 1998)	166,465	178,754
Foreign unsecured revolving bank loans at rates from 1.5% to 8.5%	14,996	28,153
Total debt	$181,461	$206,907

Scheduled principal payments on long-term debt are as follows: fiscal 2000: $8,047,000; fiscal 2001: $11,775,000; fiscal 2002: $9,810,000; fiscal 2003: $14,708,000; fiscal 2004: $16,997,000; and $105,128,000 thereafter.

During fiscal 1999, 1998 and 1997, the Company incurred interest expense, net of capitalized interest, of $12,703,000, $10,060,000 and $7,357,000, respectively.

In accordance with SFAS No. 107 "Disclosures About Fair Value of Financial Instruments," the fair values of the Company's debt has been estimated based on current rates offered to the Company for debt of the same remaining maturities. The carrying amounts of the loans to the Company approximate their fair values.

Note 3: Capital Stock

Employee Stock Purchase Plan

The Company has a compensatory employee stock purchase plan ("ESPP"). Under this plan employees are allowed to designate between two and ten percent of their base compensation to purchase shares of the Company's common stock at 85 percent of fair market value at a designated date. During fiscal 1999, 1998 and 1997, 344,177, 216,655 and 182,190 shares were purchased at weighted average per share exercise prices of $6.93, $11.07 and $13.66, respectively. Shares authorized under this plan that remained unissued were 1,096,709, 1,440,886 and 1,657,541 at June 30, 1999, 1998 and 1997, respectively. The weighted average per share fair value of ESPP options granted, using the Black Scholes method, in 1999, 1998 and 1997 was $2.84, $4.31 and $5.54 per share, respectively.

Stock Option Plans

The Company has three stock option plans, the Stock Option Plan of 1984 (as amended) ("1984 Plan"), the Amended and Restated Stock Incentive Plan of 1992 ("1992 Plan"), and the 1997 Employee Stock Incentive Plan ("1997 Plan"). Under the 1984 Plan and the 1992 Plan, options to purchase shares of the Company's common stock may be granted to the Company's employees, including executive officers, and to members of the Company's Board of Directors. Under the 1997 Plan, options to purchase shares of the Company's common stock may be granted to the Company's employees and consultants, but not to executive officers of the Company or members of its Board of Directors. Options have been issued with an exercise price at least equal to the fair value of the Company's common stock at the date of grant ("at market") and become generally exercisable in annual installments of 20%, beginning on the first anniversary date.

The 1984 Plan terminated in August 1994. As of June 1999, there are no remaining options outstanding under the 1984 Plan. During fiscal 1999, 1998 and 1997, 14,000, 2,800 and 2,400 shares, respectively, expired under the 1984 Plan.

In November 1996, the stockholders of the Company approved an amendment to the stock option plan of 1992. The amendment broadened the types of options and other stock-based awards (e.g., restricted stock, SARs and performance shares) that may be granted (prior to the amendment, only non-qualified options could be granted), extended the term of the 1992 Plan for three years to December 31, 2002, retained the provision for the annual increase in shares of the Company's common stock available for grant of 1.5% of outstanding shares, increased the maximum number of shares that may be granted to non-employee directors from 100,000 to 120,000 (including an annual grant of 5,000 shares to each such director), reduced the holding period for full vesting of certain non-employee director options from one year to six months, and generally provided the committee of the Board of Directors that administers the 1992 Plan with substantial powers and discretion in respect to awards. During fiscal 1999 and 1998, only non-qualified options were issued, at market, under the 1992 Plan. On January 1, 1999, 1998 and 1997, 773,019, 767,928 and 764,078 shares, respectively, were added to the 1992 Plan.

The 1997 Plan was adopted by the Board of Directors in November 1997. The terms of the options authorized and granted under the 1997 Plan are substantially similar to those under the 1992 Plan. As of June 30, 1999, there are 826,100 shares available for future grants to eligible employees; no awards may be granted after December 31, 2002. Executive officers and directors are not eligible for grants under the 1997 Plan. During fiscal 1999 and 1998, only non-qualified options were issued under the 1997 Plan.

A summary of the status of options under the 1984, 1992 and 1997 Plans is as follows:

	SHARES	WEIGHTED AVERAGE OPTION EXERCISE PRICE PER SHARE	WEIGHTED AVERAGE GRANT DATE FAIR VALUE PER SHARE
Outstanding, June 30, 1996	1,839,935	$12.75	—
Options granted	1,018,000	17.49	$ 7.99
Options exercised	(48,440)	8.08	—
Options expired or canceled	(11,310)	14.69	—
Outstanding, June 30, 1997	2,798,185	14.55	—
Options granted	1,666,960	15.22	7.73
Options exercised	(82,361)	7.41	—
Options expired or canceled	(88,002)	15.29	—
Outstanding, June 30, 1998	4,294,782	14.93	—
Options granted	1,388,050	9.20	4.20
Options exercised	(85,600)	7.42	—
Options expired or canceled	(212,485)	13.69	—
Outstanding, June 30, 1999	5,384,747	$13.62	—

The following table summarizes significant option groups outstanding at June 30, 1999 and related weighted average price and life information:

	OPTIONS OUTSTANDING			OPTIONS EXERCISABLE	
RANGE OF EXERCISE PRICE PER SHARE	NUMBER OUTSTANDING AT JUNE 30, 1999	WEIGHTED AVERAGE REMAINING LIFE (YEARS)	WEIGHTED AVERAGE EXERCISE PRICE	NUMBER EXERCISABLE AT JUNE 30, 1999	WEIGHTED AVERAGE EXERCISE PRICE
$5.50 to $6.94	221,200	7.9	$ 6.42	63,200	$ 6.20
7.50 to 10.69	1,663,850	8.1	8.50	625,550	8.24
11.19 to 16.75	1,855,915	7.8	13.33	910,303	12.95
17.44 to 23.81	1,643,782	7.5	20.11	789,728	20.01
$5.50 to $23.81	5,384,747	7.8	$ 13.62	2,388,781	$ 13.87

Additional information relating to the 1984, 1992, and 1997 Plans at June 30, 1999, 1998 and 1997 is as follows:

	1999	1998	1997
Options exercisable	2,388,781	1,178,881	628,285
Options available for grant	1,314,902	746,448	710,278
Total reserved common stock shares for stock option plans	6,699,649	5,041,230	3,508,463

The fair value of options at date of grant was estimated using the Black-Scholes model with the following weighted average assumptions:

	1999	1998	1997
Expected life (years)	5	5	5
Interest rate	5.40%	5.81%	6.43%
Volatility	57.03%	49.88%	49.95%
Dividend yield	0%	0%	0%

The Company applies APB Opinion No. 25 and related interpretations in accounting for its stock-based compensation programs. Had the Company recorded compensation expense using the accounting method recommended by SFAS No. 123, net income (loss) and net income (loss) per common share – Basic and Diluted would approximate the following:

(In thousands except for per share amounts)	1999	1998	1997
Net income (loss)			
As reported	$ (5,778)	$16,475	$(43,206)
Pro forma	(10,091)	12,918	(45,273)
Net income (loss) per common share – Basic and Diluted			
As reported	$ (0.11)	$ 0.32	$ (0.84)
Pro forma	(0.20)	0.25	(0.88)

The effects of applying SFAS No. 123 in this pro forma disclosure are not indicative of future amounts. SFAS No. 123 does not apply to awards prior to 1996. The Company anticipates grants of additional awards in future years.

Shareholder Rights Plan

On August 2, 1996, the Company's Board of Directors adopted a Shareholder Rights Plan (the "Plan") under which preferred stock purchase rights (the "Rights") have been and will continue to be granted for each outstanding share of the Company's common stock held at the close of business on August 14, 1996. The Plan is intended to ensure fair and equitable treatment for all shareholders in the event of unsolicited attempts to acquire the Company.

The Rights will become exercisable ten days after a person or group ("the Acquiror") has acquired beneficial ownership of 20% or more of the Company's common stock other than pursuant to a qualified offer, or announces or commences a tender offer or exchange offer that could result in the acquisition of beneficial ownership of 20% or more. Once exercisable, each Right entitles the holder to purchase one one-thousandth of a share of a new series of preferred stock at an exercise price of $135, subject to adjustment to prevent dilution. If the Acquiror acquires 20% or more of the Company's common stock, each Right (except those held by the Acquiror) entitles the holder to purchase either the Company's stock or stock in the merged entity at half of market value. The Rights have no voting power, expire on August 14, 2006, and may be redeemed at a price of $0.01 per Right up to and including the tenth business day after a public announcement that 20% or more of the Company's shares have been acquired by the Acquiror.

The Company amended and restated its Rights Agreement, as of December 15, 1998, to remove the requirement that continuing directors vote in board approvals of certain corporate transactions.

Note 4: Impairment of Assets, Restructuring and Severance Charges

Due to a continuous decline in selling prices for its MOSFET and IGBT products, during the fourth quarter of fiscal 1997, the Company recorded a $75 million pretax charge related to a restructuring program designed to improve the Company's cost structure. Specifically, the restructuring activities included shifting production from older manufacturing facilities to newer, more efficient facilities, changing business processes by consolidating order entry, customer support, inventory management, information systems and finance activities at fewer locations and accelerating the deployment of the Company's new product development center. The restructuring activities were expected to reduce the cost of the Company's business processes and lower product costs and result in increased flow of new products, which are less price sensitive. The charge was composed of $61 million for the write-down of assets, $4 million for the write-down of inventory, primarily wafers, to net realizable value and $10 million for termination benefits to be paid in connection with the severed employees. The restructuring activities occurred over an approximate eighteen-month transition period through December 31, 1998.

The asset write-down of property and equipment of $61 million was determined by comparing the expected future undiscounted cash flows to the respective asset carrying value. If an asset was deemed to be impaired, the carrying value was adjusted to its expected future discounted cash flows. The net book value of the applicable property and equipment prior to the $61 million write-down was $79 million. The write-downs related to the following:

1) Wafer fabrication equipment located in El Segundo, California with a carrying value of $21 million, was adjusted to its fair value of $2 million. One wafer fabrication line, dedicated primarily to research and product development, was abandoned and replaced by a new product development facility in August 1998. The other wafer fabrication line, which manufactured product using equipment that processed 4-inch wafers, was abandoned and replaced with a more advanced line located in Italy, which processes 5-inch wafers, in August 1998. Using 5-inch wafers results in significant manufacturing savings. The current status of the wafer fabrication impaired equipment falls into three categories: a) it was scrapped as of June 1997, b) it is idle with no viable plans for usage, or c) it is being used on a sporadic basis in research and development. There is no viable external market for this equipment.

2) Assembly equipment in England of $26 million was adjusted to its fair value of $4 million. Specifically, three product assembly and packaging lines in England were operating at a gross margin loss. The Company has continued to utilize these lines periodically for market development activities, and these lines remain unprofitable.

3) Information systems applications with a carrying value of $32 million were written down to $12 million as a result of lack of vendor support. The Company's software vendor changed business strategies and informed the Company of its intention to stop supporting and developing the software technology that certain of the Company's information systems applications were based upon. It was determined in June 1997, that no viable alternatives could be identified. As a result of this decision, the Company ceased development and implementation of certain forecasting, planning and order management programs and determined the assets related to these specific activities were impaired (i.e. no future use and were abandoned). These assets consisted of costs related to external consulting fees and expenses. The remaining book value relates to modules that have not been abandoned.

As of June 30, 1999, the Company had eliminated approximately 242 employees related to the June 1997 restructuring. The majority of the positions eliminated were operators and technicians at the Company's North American operations. The Company also eliminated production and assembly positions in its manufacturing operations in Italy due to the outsourcing of certain assembly activities. In addition, administrative and sales positions in France, England, Germany, Japan and North America, related to the regional consolidation of certain administrative functions, were eliminated.

As of June 30, 1999, there was no remaining accrued severance liability in the Company's Consolidated Balance Sheet related to the June 1997 restructuring.

During December 1998, the Company recorded a $14.5 million restructuring charge associated with plans to relocate high-volume assembly lines from its facility in England to its facility in Mexico to take advantage of labor rate savings, and to centralize more of its European customer service and administrative activities, resulting in reductions in personnel. The Company expects to complete this operational transition over the next twelve months ending on June 30, 2000. The charge consisted of $5.9 million for estimated severance costs associated with the elimination of approximately 350 positions, primarily consisting of operators and technicians, $6.1 million for the write-off of assets to be abandoned, and $2.5 million for the write-down of inventory related to specialty product lines. None of the assets written down, which consist primarily of building improvements relating to the high volume assembly production lines, and production information systems, will remain in use and all of them will be abandoned after the production lines are relocated. In the third quarter of fiscal 1999, the Company recorded a final charge of $4.2 million relating to additional severance costs, after appropriate notification was given to 43 remaining affected employees in the sales, customer service and administrative areas. The severance per person is larger for the March 1999 restructuring versus the December 1998 restructuring as the 43 positions included in the March 1999 restructuring are primarily highly paid employees in sales and administrative management. The 350 positions in the December 1998 restructuring are primarily operators and technicians who have a much lower salary level. Therefore, the Company estimates that, ultimately, charges associated with all of these actions will total approximately $18.7 million.

As of June 30, 1999, the Company had eliminated 17 positions, paid $2.8 million for termination benefits related to this program and recorded the asset impairment of $8.6 million. The remaining unutilized restructuring accrual of $7.3 million, which is classified as current, relates to severance payments to these previously notified employees for positions that are scheduled to be eliminated during the next twelve months.

During June 1999, the Company recorded an $8.3 million charge related to employee severance associated with the elimination of approximately 39 positions. This includes a reduction in sales and administrative management staff levels and the resignation of Dr. Derek B. Lidow who shared the responsibility of Chief Executive Officer. As of June 30, 1999, the Company had eliminated 4 positions and paid $3.5 million in termination benefits. The remaining unutilized severance accrual of $4.8 million at June 30, 1999, which is classified as current, relates to severance payments to these previously notified employees for positions that are scheduled to be eliminated during the next twelve months.

Note 5: Geographic Segments and Foreign Operations

As described in Note 1, the Company adopted SFAS No. 131 in fiscal 1999. The Company operates in one business segment. Revenues from unaffiliated customers are based on the location in which the sale originated. Geographic information for the fiscal years ended June 30, 1999, 1998 and 1997 is presented below:

	Fiscal Years Ended		
(In thousands)	1999	1998	1997
Revenues from Unaffiliated Customers			
England	$ 77,457	$ 85,900	$ 70,208
Singapore	79,489	59,840	57,656
Other Foreign	125,173	138,635	118,218
Subtotal – Foreign	282,119	284,375	246,082
United States	236,732	250,283	219,717
Unallocated royalties	26,520	17,233	20,328
Total	$545,371	$551,891	$486,127
Identifiable Assets			
England	$103,002	$107,220	$98,275
Singapore	62,625	55,958	47,993
Other Foreign	32,549	44,619	41,448
Subtotal – Foreign	198,176	207,797	187,716
United States	482,636	464,863	433,684
Corporate Assets and Eliminations	28,273	63,167	58,353
Total	$709,085	$735,827	$679,753

Corporate assets consist of cash, short-term investments, royalties receivable, inventory reserves, deferred taxes, investments in subsidiaries and certain other assets.

One customer accounted for 10.7% of the Company's consolidated net revenues in fiscal 1999. No single customer accounted for more than 10% of the Company's consolidated net revenues in fiscal 1998 or 1997.

Note 6: Income Taxes

Income (loss) before income taxes and cumulative effect of accounting change for the fiscal years ended June 30, 1999, 1998 and 1997 is as follows:

(In thousands)	1999	1998	1997
Operations:			
Domestic	$29,907	$14,389	$(59,536)
Foreign	1,249	10,200	6,846
	$31,156	$24,589	$(52,690)

The provision (benefit) for income taxes for the fiscal years ended June 30, 1999, 1998 and 1997 consists of:

(In thousands)	1999	1998	1997
Current income taxes:			
Domestic	$ 680	$(4,940)	$ (2,666)
Foreign	17,413	3,597	8,710
	18,093	(1,343)	6,044
Deferred income taxes:			
Domestic	(3,515)	9,009	(16,312)
Foreign	(3,798)	448	784
	(7,313)	9,457	(15,528)
Total provision (benefit)	$10,780	$ 8,114	$ (9,484)

Deferred taxes result primarily from temporary differences relating to depreciation, financial statement reserves and state taxes.

The Company's effective tax rate (benefit) on pretax income (loss) differs from the U.S. Federal Statutory tax rate for the fiscal years ended June 30, 1999, 1998 and 1997 as follows:

	1999	1998	1997
Statutory tax rate (benefit)	35.0%	35.0%	(35.0)%
Change in valuation allowance	37.6	1.5	—
Foreign tax differential	51.2	3.7	14.4
Foreign tax credit benefit	(48.4)	(5.1)	(1.7)
Research tax credit benefit	(42.1)	(1.0)	(0.4)
State taxes, net of federal tax benefit	(7.6)	(4.8)	(0.6)
Accrual without tax effect [(1)]	—	—	5.0
Deferred compensation	7.0	—	—
Other, net	1.9	3.7	0.3
	34.6%	33.0%	(18.0)%

[(1)] *Accrual without tax effect is the increase in tax liabilities for additional income tax exposures resulting from worldwide tax audits.*

The major components of the net deferred tax asset (liability) as of June 30, 1999 and 1998 are as follows:

(In thousands)	1999	1998
Deferred tax liabilities:		
Depreciation	$(48,651)	$(51,833)
Effect of state taxes	(3,185)	(1,907)
Other	(1,370)	(1,805)
Total deferred tax liabilities	(53,206)	(55,545)
Deferred tax assets:		
Financial statement reserves	5,348	4,041
Credit carryovers	67,386	22,600
Impairment of assets, restructuring and severance charges	17,941	16,158
Inventory adjustment	571	1,044
Net operating loss carryovers	2,582	12,599
Other	649	116
Total deferred tax assets	94,477	56,558
Valuation allowance	(31,812)	(4,297)
Net deferred tax asset (liability)	$ 9,459	$ (3,284)

The Company's federal net operating loss ("NOL") carryforwards of $26,614,000 from fiscal 1998 will be fully utilized to offset taxable income in fiscal 1999. In addition, the Company has approximately $16,188,000, $1,187,000 and $38,238,000, respectively, of foreign tax credits, investment tax credits, and research and development tax credit carryforwards, before valuation allowance, available to reduce income taxes otherwise payable, which expire from 2000 to 2019. In addition, the Company has approximately $3,497,000 of alternative minimum tax credits, which can be carried over indefinitely to offset regular tax liabilities to the extent of the alternative minimum tax, and a $8,276,000 state tax credit, before valuation allowance, which expires from 2004 to 2007.

The Company's NOL carryforwards of $2,582,000 were generated from the Company's United Kingdom subsidiary. The NOLs can generally be carried forward indefinitely, with certain limitations.

Realization of deferred tax assets is dependent upon generating sufficient taxable income. Management believes that there is a risk that certain deferred tax assets may result in no benefit and, accordingly, has established a valuation allowance of $31,812,000 against them. Although realization is not assured for the remaining deferred tax assets, management believes it is more likely than not that they will be realized through future taxable earnings or alternative tax strategies.

The Internal Revenue Service is currently auditing the Company's income tax returns for fiscal 1995 through 1997. Management believes that resolution of the audit will not have a material impact on the Company's consolidated financial position, results of operations or cash flows.

Note 7: Net Income (Loss) per Common Share

The reconciliation of the numerator and denominator of the Net income (loss) per common share – Basic and Diluted determined in accordance with SFAS No. 128 "Earnings per Share," was as follows for the years ended June 30, 1999, 1998 and 1997:

(In thousands except per share amounts)	INCOME (NUMERATOR)	SHARES (DENOMINATOR)	PER SHARE AMOUNT
Year ended June 30, 1997			
Net loss per common share – Basic	$ (43,206)	51,307	$ (0.84)
Effect of dilutive securities:			
Stock options		—	
Net loss per common share – Diluted	$(43,206)	51,307	$(0.84)
Year ended June 30, 1998			
Net income per common share – Basic	$16,475	51,248	$0.32
Effect of dilutive securities:			
Stock options		426	
Net income per common share – Diluted	$ 16,475	51,674	$ 0.32
Year ended June 30, 1999			
Net loss per common share – Basic	$ (5,778)	51,612	$ (0.11)
Effect of dilutive securities:			
Stock options		176	
Net loss per common share – Diluted	$ (5,778)	51,788	$ (0.11)

Note 8: Profit Sharing and Retirement Plans

The Company previously had a defined contribution plan for all eligible employees ("The Profit Sharing and Retirement Plan"). This plan provided for contributions by the Company in such amounts as the Board of Directors determined annually. Effective November 1, 1996, the Company elected to terminate its Profit Sharing and Retirement Plan in order to focus on improvements in its voluntary Retirement Savings Plan (401K). Employees and former employees not fully vested at the time of the plan termination became 100% vested and were given various distribution options as defined by ERISA. Under the established Retirement Savings Plan (401K), the Company made an annual contribution for each participating employee of up to $1,200 in fiscal 1999, 1998 and 1997. Combined plan contributions by the Company totaled $1,174,000, $1,261,000 and $1,365,000 for fiscal 1999, 1998 and 1997, respectively.

Note 9: Environmental Matters

Federal, state, and local laws and regulations impose various restrictions and controls on the storage, use and discharge of certain materials, chemicals, and gases used in semiconductor manufacturing processes. The Company does not believe that compliance with such laws and regulations as now in effect will have a material adverse effect on the Company's results of operations, financial position or cash flows.

In addition, under some of these laws and regulations, the Company could be held financially responsible for remedial measures if properties are contaminated, or if waste is sent to a landfill or recycling facility that becomes contaminated. Also, the Company may be subject to common law claims if it releases substances that damage or harm third parties. The Company cannot make assurances that changes in environmental rules and regulations will not require additional investments in capital equipment and the implementation of additional compliance programs in the future which could have a material adverse effect on the Company's results of operations, financial position or cash flows, as could any failure by the Company to comply with environmental laws and regulations.

The Company and Rachelle Laboratories, Inc. ("Rachelle"), a former operating subsidiary of the Company that discontinued operations in 1986, were each named a potentially responsible party ("PRP") in connection with the investigation by the United States Environmental Protection Agency ("EPA") of the disposal of allegedly hazardous substances at a major superfund site in Monterey Park, California ("OII Site"). Certain PRPs who settled certain claims with the EPA under consent decrees filed suit in Federal Court in May 1992 against a number of other PRPs, including the Company, for cost recovery and contribution under the provisions of the Comprehensive Environmental Response, Compensation and Liability Act ("CERCLA"). The Company has settled all outstanding claims that have arisen out of the OII Site.

The Company also received a letter dated July 25, 1995 from the U.S. Department of Justice, directed to Rachelle, offering to settle claims against Rachelle relating to the first elements of clean-up work at the OII Site for $4,953,148 (the final remedy assessment has not yet been made). The offer stated that the settlement would not cover the cost of any additional remedial actions required to finish the clean-up. This settlement offer expired by its terms on September 1, 1995. On August 7, 1995, the Company received a Supplemental Information Request from the EPA directed to Rachelle, to which counsel for Rachelle responded with information regarding waste shipped to the OII Site. Counsel for Rachelle received a letter from the EPA dated September 30, 1997, requesting that Rachelle participate in the final remedial actions at the site, and counsel replied on October 21, 1997. The Company has taken the position that none of the wastes generated by Rachelle were hazardous. The Company has received no further communications in connection with the OII Site.

The Company cannot determine with accuracy the amount of the potential demand to Rachelle for the cost of the final remedy. Based upon information received to date, the Company believes that any demand, if made, while likely to be significant, should nonetheless be substantially below, although in addition to, the demand amount for earlier phases of the OII Site clean-up. The Company's insurer has not accepted liability although it has made payments for defense costs for the lawsuit against the Company.

The Company also received a letter dated September 9, 1994, from the State of California Department of Toxic Substances Control stating that it may be a PRP for the deposit of hazardous substances at a facility in Whittier, California. In June 1995, the Company joined a group of other PRPs to remove contamination from the site. The group currently estimates the total cost of the clean-up to be between $20 million and $25 million, although the actual cost could be much higher. The Company estimated that it sent approximately 0.1% of the waste, by weight, sent by all PRPs contributing to the clean-up of the site, and the Company believes the cost of the clean-up will be roughly allocated among PRPs by the amount of waste contributed. On July 31, 1999, the group proposed two settlement offers to the Company: one for $34,165 and the second for $68,330. The first settlement offer covers investigation and remediation of the site itself and a small area extending beyond the site. The second settlement offer covers this area plus all

additional downgradient contamination. The Company accepted the $68,330 settlement offer, which requires EPA acceptance, on September 14, 1999, and will make the required payment by September 30, 1999. There can be no assurance, however, that the EPA will accept the settlement offers or what the ultimate outcome of this matter will be. The Company believes that, whatever the outcome, it will not have a material adverse effect on the Company's financial condition, results of operations or cash flows.

Note 10: Commitments

The future minimum lease commitments under non-cancelable capital and operating leases of equipment and real property at June 30, 1999 are as follows:

(In thousands)	CAPITAL LEASES	OPERATING LEASES	TOTAL COMMITMENTS
Fiscal Years			
2000	$1,589	$2,554	$4,143
2001	1,488	1,966	3,454
2002	1,334	1,120	2,454
2003	1,136	902	2,038
2004	788	736	1,524
Later years	—	1,020	1,020
Less imputed interest	(1,037)	—	(1,037)
Total minimum lease payments	$5,298	$8,298	$13,596

Total rental expense on all operating leases charged to income was $6,710,000, $7,698,000 and $8,552,000 in fiscal 1999, 1998 and 1997, respectively. The Company had outstanding purchase commitments for capital expenditures of approximately $10.1 million at June 30, 1999.

Note 11: Intellectual Property Rights

Most of the Company's broadest power MOSFET patents were subject to, and have successfully emerged from, reexamination by the United States Patent and Trademark Office ("PTO"). The PTO, in the fiscal year, concluded its reexamination of the Company's U.S. patents 4,642,666 and 4,959,699 and issued reexamination certificates confirming the patentability of claims of those patents. The Company's 5,008,725 and 5,130,767 patents are currently undergoing reexamination in the PTO.

Note 12: Other Income (Expense)

Other income was $53.5 million in fiscal 1999, compared to other expense of $0.5 million in fiscal 1998. Fiscal 1999 other income primarily consisted of proceeds from license agreements for prior periods and amounts in settlement of litigation for past patent infringement (net of legal costs and the share of the Company's royalty proceeds payable to Unitrode Corporation).

In December 1998, the Company entered into licensing agreements with two competitors, Samsung Semiconductor, Inc. and Samsung Electronics Co., Ltd, (together "Samsung") and Fuji Electric Co., Ltd. ("Fuji"), with respect to IR's power MOSFET / IGBT patents. The respective agreements provide for payments of royalties for prior periods. The agreement with Samsung also provides for a paid-up license that expired in April 1999. The agreement with Fuji provides for ongoing royalties on worldwide sales covered by the licensed IR patents.

In March 1999, the Company entered into a licensing agreement with Shindengen Electric Company. The agreement, effective as of January 1, 1999, provided for payments of royalties for prior periods, as well as ongoing royalties on worldwide sales covered by the licensed IR patents.

In June 1999, the Company entered into a licensing agreement with Rohm Co., Ltd. The agreement provides for payments of royalties for prior periods, as well as ongoing royalties on worldwide sales covered by the licensed IR patents.

Note 13: Litigation

The Company, along with 87 other companies, was sued in Phoenix, Arizona federal court on February 26, 1999, by the Lemelson Foundation for alleged infringement of various Lemelson "machine-vision" and "auto ID" patents. In July 1999, the Company entered into an agreement with the Lemelson Foundation that settled all outstanding claims and grants the Company a license to use the Lemelson patents asserted against the Company.

The Company and certain of its directors and officers have been named as defendants in three class action lawsuits filed in Federal District Court for the Central District of California in 1991. These suits seek unspecified but substantial compensatory and punitive damages for alleged intentional and negligent misrepresentations and violations of the federal securities laws in connection with the public offering of the Company's common stock completed in April 1991 and the redemption and conversion in June 1991 of the Company's 9% Convertible Subordinated Debentures Due 2010. They also allege that the Company's projections for growth in fiscal 1992 were materially misleading. Two of these suits also named the Company's underwriters, Kidder, Peabody & Co. Incorporated and Montgomery Securities, as defendants.

On March 31, 1997, the Court, on the Company and the individual defendants' motion for summary judgment, issued the following orders: (a) the motion for summary judgment was granted as to claims brought under Sections 11 and 12(2) of the Securities Act of 1933; (b) the motion was denied as to claims brought under Section 10(b) of the Securities Exchange Act of 1934 and the Securities and Exchange Commission Rule 10b-5; and (c) the motion was granted as to the common law claims for fraud and negligent misrepresentation to the extent said claims are based on representations contained in the offering prospectus and was denied as to other such claims. The Court also granted the summary judgment motion brought by the underwriters. The plaintiffs' motion for reconsideration or certification of an interlocutory appeal of these orders was denied.

On January 28, 1998, the Court decertified the class pursuing common law claims for fraud and negligent misrepresentation and granted the defendants' motion to narrow the shareholder class period to June 19, 1991 through October 21, 1991. Plaintiffs' motion for reconsideration or certification of an interlocutory appeal of these rulings was denied.

On June 14, 1999, the Court approved a notice of the pendency of the class action and a proof of claim form for dissemination to class members. Such dissemination took place in June 1999. Trial is scheduled for March 14, 2000.

Although the Company believes that the remaining claims alleged in the suits are without merit, the ultimate outcome cannot be presently determined. A substantial judgment or settlement, if any, could have a material adverse effect on the Company's results of operations, financial position or cash flows. No provision for any liability that may result upon adjudication of these matters has been made in the Consolidated Financial Statements.

Note 14: Executive Agreement

The Company entered into an executive agreement with Eric Lidow dated May 15, 1991. The agreement set Mr. Lidow's annual salary at $500,000, granted the Board discretion to increase his salary and to pay him bonuses, and established a pension. Mr. Lidow's salary was increased in May 1992 to $550,000, in August 1994 to $632,500 and in July 1999 to $670,450. Mr. Lidow was not awarded a bonus in fiscal 1999. The agreement may be terminated by either party upon 90 days written notice.

Under the agreement, prior to its amendment described below, Mr. Lidow would have been entitled to begin receiving the pension payments when his employment with the Company ceased for any reason (except termination for cause). The pension would have been payable in annual installments, equal to the sum of 90% of his then current salary and the average of his prior three years' cash bonuses, if any. If Mr. Lidow's wife survived him, she would have received, for the remainder of her life, annual payments in an amount equal to two-thirds of the amount of the pension payment that would have been payable to Mr. Lidow. Before the amendments to the agreement described below, if Mr. Lidow had retired at fiscal 1998 year-end, the pension would have been equal to $821,250 per year for the remainder of Mr. Lidow's life and $547,500 per year for the remainder of Mrs. Lidow's life, if she had survived him. The Company had funded a trust to cover its liability for the pension based on actuarial assumptions established by PricewaterhouseCoopers LLP. However, the Company's actual liability for the pension in ensuing years could have been more or less than the funding depending upon whether actual events mirrored the actuarial assumptions.

In fiscal 1998, the Company's Compensation Committee and Mr. Lidow renegotiated his executive agreement. The Compensation Committee then recommended adoption of the renegotiated agreement by the Board, which the Board approved. In taking these actions, the Compensation Committee and the Board considered, among other things, their and Mr. Lidow's desire to limit the sale of his shares of IR Common Stock to meet commitments and their concerns about the uncertainty of the Company's liability for the pension. In connection with the former consideration, the Company also made certain loans to Mr. Lidow, which have since been repaid. See Note 15 in the Notes to the Consolidated Financial Statements. The amendments to Mr. Lidow's agreement canceled all of the Company's obligations with respect to the pension. As consideration, the corpus of the trust of $8,096,663 was distributed to Mr. Lidow in several installments, $6,596,663 and $1,500,000 in fiscal 1999 and 1998, respectively. Based on actuarial analysis, the consideration was less than the amount needed to purchase the retirement benefit from a third party company. Mr. Lidow and his wife are not entitled to receive any additional pension payments under the agreement.

The funding of the pension had been expensed in prior years, and the lump sum distribution did not trigger any further expense. Because Internal Revenue Code Section 162(m) imposes certain restrictions on the deductibility of non-performance based compensation in excess of $1,000,000, the Company was not able to deduct any compensation in excess of $1,000,000 paid to Mr. Lidow in fiscal 1999 and 1998.

Note 15: Related Parties

In June 1998, after discussing with Eric Lidow his desire to limit his sale of shares of IR Common Stock to meet commitments, the Board approved two unsecured loans to him aggregating $1,200,000, with interest at the annual rate of eight and one-half percent (8.5%). The first loan of $600,000 was made in June 1998 and the second loan, also for $600,000, was made in July 1998. Both loans were due December 31, 1998. Mr. Lidow repaid them with accrued interest of $23,497 on September 23, 1998. Contemporaneously with the approval of the loans, the Company amended his executive agreement. (See Note 14 in the Notes to the Consolidated Financial Statements).

In May 1999, after considering the recommendation of the Chairman and Chief Executive Officers, the Board determined that the Company should implement a single CEO management structure. To effectuate this management change, the Company entered into an agreement with Dr. Derek B. Lidow on May 10, 1999 ("Agreement"), which provided for Dr. Lidow's resignation as Chief Executive Officer and as an employee of the Company. Under the terms of the Agreement, Dr. Lidow received a severance payment of $3,200,000 on June 15, 1999, a bonus of $100,000 for fiscal 1999 performance on August 13, 1999 and a grant of 200,000 stock options on June 14, 1999, which were fully vested, and which expire on June 13, 2009. The Agreement also provided for the immediate acceleration of the vesting of all of Dr. Lidow's outstanding unvested stock options and extended the period during which the options could be exercised. Under the Agreement, Dr. Lidow will provide consulting services to the Company for a period of two years for which he will be compensated $100,000 per quarter plus associated expenses.

In connection with Dr. Derek B. Lidow's exercise of an option on June 23, 1999 to purchase 64,000 shares of IR Common Stock, the Company had an outstanding receivable from Dr. Lidow for $597,694 at June 30, 1999, which was paid off on July 7, 1999.

During the fiscal year, the Company paid $310,160 to the Law Offices of Janet K. Hart for legal and negotiation services rendered to the Company. Ms. Hart is the wife of Dr. Alexander Lidow.

Note 16: Quarterly Financial Data (unaudited)

Summarized quarterly financial data is as follows:

(In thousands except for per share amounts)	REVENUES	GROSS PROFIT	NET INCOME (LOSS) BEFORE CUMULATIVE EFFECT OF ACCOUNTING CHANGE	NET INCOME (LOSS) PER COMMON SHARE-BASIC AND DILUTED BEFORE CUMULATIVE EFFECT OF ACCOUNTING CHANGE	CUMULATIVE EFFECT OF ACCOUNTING CHANGE, NET OF TAX	LOSS PER COMMON SHARE DUE TO CUMULATIVE EFFECT OF ACCOUNTING CHANGE	NET INCOME (LOSS)	NET INCOME (LOSS) PER COMMON SHARE–BASIC AND DILUTED
1999								
1st Quarter	$127,493	$36,210	$ 34	$ 0.00	$(26,154)	$(0.50)	$(26,120)	$ (0.50)
2nd Quarter	132,837	36,153	19,794	0.38			19,794	0.38
3rd Quarter	137,550	39,881	4,004	0.08			4,004	0.08
4th Quarter	147,491	39,748	(3,456)	(0.07)			(3,456)	(0.07)
1998								
1st Quarter	$133,111	$44,951					$ 6,095	$ 0.12
2nd Quarter	144,622	47,850					6,699	0.13
3rd Quarter	140,376	44,514					3,284	0.06
4th Quarter	133,782	38,849					397	0.01

The results, as noted above, for the first quarter in fiscal 1999 differ from those previously reported on Form 10-Q for that quarter, due to the adoption of SOP 98-5. No changes were made to the remaining fiscal 1999 quarters due to immateriality.

REPORT OF INDEPENDENT ACCOUNTANTS

The Stockholders and Board of Directors
International Rectifier Corporation

In our opinion, the accompanying consolidated balance sheet and the related consolidated statements of operations, comprehensive income, stockholders' equity, and cash flows present fairly, in all material respects, the financial position of International Rectifier Corporation and its subsidiaries at June 30, 1999 and 1998, and the results of their operations and their cash flows for each of the three years in the period ended June 30, 1999, in conformity with generally accepted accounting principles. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with generally accepted auditing standards which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

As discussed in Note 1 to the consolidated financial statements, in fiscal 1999 the Company changed its method of accounting for the cost of start-up activities.

PricewaterhouseCoopers LLP

Los Angeles, California
July 27, 1999, except for Note 9, as to which the date is September 14, 1999

MARKET FOR THE REGISTRANTS' COMMON EQUITY AND RELATED STOCKHOLDERS' MATTERS

	PRICE RANGE OF COMMON STOCK (IN DOLLARS)								
	FIRST QUARTER		SECOND QUARTER		THIRD QUARTER		FOURTH QUARTER		STOCKHOLDERS AT YEAR END
FISCAL YEAR	HIGH	LOW	HIGH	LOW	HIGH	LOW	HIGH	LOW	(000's)
1999	$8^{9}/_{16}$	$4^{1}/_{4}$	$10^{13}/_{16}$	$4^{1}/_{4}$	$11^{7}/_{8}$	$6^{3}/_{8}$	$13^{1}/_{2}$	$7^{3}/_{16}$	1,839
1998	$23^{3}/_{4}$	18	$23^{3}/_{8}$	$11^{9}/_{16}$	$14^{9}/_{16}$	$10^{9}/_{16}$	$12^{1}/_{2}$	$8^{3}/_{16}$	1,837

The Company's Common Stock is traded on the New York Stock Exchange and the Pacific Exchange under the symbol "IRF."

No dividends have been recently declared or paid. The Company does not intend to pay cash dividends in the foreseeable future as all funds will be used to expand operations. Furthermore, under certain credit agreements, the Company is not permitted to pay any cash dividends.

DIRECTORS

+ **Eric Lidow,**
Chairman of the Board

* **Donald S. Burns,**
Chairman of the Board,
President, and Chief Executive Officer,
Prestige Holdings, Ltd.

* **Dr. George Krsek,**
President, Konec, Inc.

+ **Dr. Alexander Lidow,**
Chief Executive Officer

Dr. Derek B. Lidow,
President and Chief Executive Officer
Lidow Technologies, Inc.

** **Minoru Matsuda, Esq.,**
Professor
Kanazawa Institute of Technology

+ **Robert J. Mueller,**
Executive Vice President –
External Affairs & Business Development

*+ **Dr. James D. Plummer,**
Professor of Engineering,
Dean of the School of Engineering and
Director of Nanofabrication Laboratory,
Stanford University

+ **Dr. Jack O. Vance,
Managing Director,
Management Research, Inc.

** **Dr. Rochus E. Vogt,**
Professor of Physics and
Avery Distinguished Service Professor,
California Institute of Technology

* Member of Audit Committee
** Member of Compensation and Stock Option Committee
\+ Member of Executive Committee

OFFICERS

Eric Lidow,
Chairman of the Board

Dr. Alexander Lidow,
Chief Executive Officer

Robert J. Mueller,
Executive Vice President –
External Affairs & Business Development

Michael P. McGee,
Executive Vice President and
Chief Financial Officer

L. Michael Russell,
Executive Vice President,
Secretary and General Counsel

Lesley C. Kleveter,
Assistant Secretary and Counsel

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ChaseMellon Shareholder Services, L.L.C.
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INDEPENDENT ACCOUNTANTS

PricewaterhouseCoopers LLP
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ANNUAL MEETING

The Annual Meeting of Stockholders will be held on November 22, 1999, at 10:00 a.m. at HEXFET America in Temecula, CA.

FORM 10-K

A copy of the Company's Annual Report on Form 10-K may be obtained free of charge from the Company upon written request directed to:

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