

MagnaChip Semiconductor, Inc. (California)  
Form POS AM  
March 14, 2011  
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As filed with the Securities and Exchange Commission on March 14, 2011

Registration No. 333-168790

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549

**Pre-Effective Amendment No. 1 to**  
**Post-Effective Amendment No. 1 to**  
**Form S-1**  
**REGISTRATION STATEMENT**

*UNDER*  
*THE SECURITIES ACT OF 1933*

**MAGNACHIP SEMICONDUCTOR S.A.**

(Exact name of Registrant as specified in its charter)

**Luxembourg**  
(State or other jurisdiction of)

**3674**  
(Primary Standard Industrial

**Not Applicable**  
(I.R.S. Employer

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incorporation or organization)	Classification Code Number) 74, rue de Merl	Identification No.)
	<b>B.P. 709 L-2146 Luxembourg R.C.S.</b>	
	<b>Luxembourg, B97483</b>	
	<b>(352) 45-62-62</b>	

(Address, including zip code, and telephone number, including area code, of Registrant's principal executive offices)

## **MAGNACHIP SEMICONDUCTOR FINANCE COMPANY**

(Exact name of Registrant as specified in its charter)

<b>Delaware</b> (State or other jurisdiction of incorporation or organization)	<b>3674</b> (Primary Standard Industrial Classification Code Number) c/o MagnaChip Semiconductor S.A.	<b>84-1664144</b> (I.R.S. Employer Identification No.)
	<b>74, rue de Merl</b>	
	<b>B.P. 709 L-2146 Luxembourg R.C.S.</b>	
	<b>Luxembourg, B97483</b>	
	<b>(352) 45-62-62</b>	

(Address, including zip code, and telephone number, including area code, of Registrant's principal executive offices)

**John McFarland**  
**Senior Vice President, General Counsel and Secretary**  
**c/o MagnaChip Semiconductor, Inc.**  
**20400 Stevens Creek Boulevard, Suite 370**  
**Cupertino, CA 95014**

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**Telephone: (408) 625-5999**

**Fax: (408) 625-5990**

(Name, address, including zip code, and telephone number, including area code, of agent for service)

**See Table of Additional Registrants Below**

*Copies to:*

**Micheal J. Reagan**

**Khoa D. Do**

**W. Stuart Ogg**

**Jones Day**

**1755 Embarcadero Road**

**Palo Alto, California 94303**

**Telephone: (650) 739-3939**

**Fax: (650) 739-3900**

**Approximate date of commencement of proposed sale of the securities to the public:** As soon as practicable after this registration statement becomes effective.

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

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	..	Accelerated filer	..
Non-accelerated filer	þ (Do not check if a smaller reporting company)	Smaller reporting company	..

**The Registrants hereby amend this registration statement on such date or dates as may be necessary to delay its effective date until the Registrants shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933, as amended, or until the registration statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.**

**Table of Additional Registrants**

Exact Name of Additional Registrants	State or Other Jurisdiction of Incorporation or Organization	I.R.S. Employer Identification Number
MagnaChip Semiconductor Corporation	Delaware	83-0406195
MagnaChip Semiconductor B.V.	The Netherlands	Not Applicable
MagnaChip Semiconductor, Inc.	California	77-0478632
MagnaChip Semiconductor SA Holdings LLC	Delaware	Not Applicable
MagnaChip Semiconductor Limited	United Kingdom	98-0439386
MagnaChip Semiconductor Limited	Taiwan	98-0439388
MagnaChip Semiconductor Limited	Hong Kong	98-0439389
MagnaChip Semiconductor Inc.	Japan	Not Applicable
MagnaChip Semiconductor Holding Company Limited	British Virgin Islands	Not Applicable

The principal executive office address for each of the additional registrants is c/o MagnaChip Semiconductor S.A., 74, rue de Merl, B.P. 709 L-2146 Luxembourg R.C.S., Luxembourg, B97483, telephone (352) 45-62-62. The primary standard industrial classification code number for each of the additional registrants is 3674.

The address, including zip code, and telephone number, including area code, of each of the additional registrants is c/o MagnaChip Semiconductor Corporation, 20400 Stevens Creek Boulevard, Suite 370, Cupertino, CA 95014, telephone (408) 625-5999, fax (408) 625-5990 and the name of each of the additional registrant's agent for service is John McFarland, Senior Vice President, General Counsel and Secretary, MagnaChip Semiconductor Corporation.



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**EXPLANATORY NOTE**

This pre-effective amendment to the post-effective amendment is being prepared in connection with the recent completion of our corporate conversion, which requires that a post-effective amendment to the registration statement on Form S-1 (File No. 333-168790) filed by MagnaChip Semiconductor LLC a Delaware limited liability company (the Pre-Conversion Company ) on August 12, 2010 (the Original Registration Statement ) be filed and declared effective pursuant to Rule 414 under the Securities Act of 1933, as amended (the Act ). This pre-effective amendment to the post-effective amendment includes our financial statements for the year ended December 31, 2010 and updates the registration statement and the disclosure in the prospectus included therein as of December 31, 2010 or the most current date practicable, as appropriate.

The Pre-Conversion Company also filed a registration statement on Form S-1 (File No. 333-165467) with the SEC on March 15, 2010 (the IPO Registration Statement ), as amended, with respect to the initial public offering of the common stock of MagnaChip Semiconductor Corporation, which we refer to as the MagnaChip Corporation IPO. Prior to the effectiveness of the IPO Registration Statement, we completed a number of transactions pursuant to which MagnaChip Semiconductor Corporation succeeded to the business of MagnaChip Semiconductor LLC and its consolidated subsidiaries, the members of MagnaChip Semiconductor LLC became stockholders of MagnaChip Semiconductor Corporation and all of the outstanding options and warrants to purchase common units of MagnaChip Semiconductor LLC were automatically converted into options and warrants to purchase shares of MagnaChip Semiconductor Corporation's common stock. We refer to such transactions in the prospectus contained in this registration statement as the corporate conversion. The prospectus contained in this registration statement is presented after giving effect to the corporate conversion.

MagnaChip Semiconductor Corporation hereby expressly adopts the Original Registration Statement filed by the Pre-Conversion Company as its own registration statement for all purposes of the Act and the Securities Exchange Act of 1934, as amended, as required by Rule 414(d) of the Act. In accordance with Rule 414(d) of the Act, this registration statement sets forth additional information necessary to reflect material changes made in connection with or resulting from the corporate conversion, or necessary to keep the Original Registration Statement from being misleading in any material respect.

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**Subject to Completion, Dated March 14, 2011**

**PROSPECTUS**

**MagnaChip Semiconductor S.A.**  
**MagnaChip Semiconductor Finance Company**

**10.500% Senior Notes due 2018 and related Guarantees**

This prospectus covers resales by certain holders of up to \$35,000,000 in principal amount of the 10.500% Senior Notes due 2018 issued by MagnaChip Semiconductor S.A. and MagnaChip Semiconductor Finance Company on April 9, 2010, which may be offered from time to time by the selling noteholders. We refer to the 10.500% Senior Notes due 2018, together with the related guarantees, offered in this prospectus collectively as the notes.

The notes mature on April 15, 2018. Interest on the notes is payable on April 15 and October 15 of each year and accrues at a rate of 10.500% per annum. At any time prior to April 15, 2013, the issuers have the option on any one or more occasions to redeem up to 35% of the notes with proceeds of certain equity offerings at the redemption price set forth in this prospectus. In addition, at any time prior to April 15, 2014, the issuers have the option on any one or more occasions to redeem all or a portion of the notes at a price equal to 100% of the principal amount of the notes redeemed, plus a make whole premium and accrued and unpaid interest and Special Interest, if any. On or after April 15, 2014, the issuers have the option to redeem all or a portion of the notes at the redemption prices set forth in this prospectus. The issuers have the option to redeem all of the notes at the redemption price set forth in this prospectus if they become obligated to pay additional amounts in respect of withholding for taxes as a result of specified changes in relevant law, subject to certain limitations. Upon certain change of control events or asset sales, each holder of the notes may require the issuers to repurchase all or a part of their notes at the price set forth in this prospectus.

The issuers' obligations under the notes are fully and unconditionally guaranteed, jointly and severally by MagnaChip Semiconductor Corporation and certain of its current and future subsidiaries. The notes are unsecured obligations. The notes and the guarantees are effectively subordinated in right of payment to all secured obligations of the issuers and the guarantors to the extent of the value of the collateral securing such indebtedness. The notes are also effectively junior in right of payment to all obligations and other liabilities (including trade payables) of any subsidiaries of MagnaChip Semiconductor Corporation that are not guarantors of the notes. See Description of Notes The Note Guarantees.

The issuers have not, and do not intend to apply, for listing of the notes on any national securities exchange or automated quotation system.

We will not receive any proceeds from the resale of the notes hereunder. The selling noteholders may offer some or all of the notes through public or private transactions, at market prices prevailing at the time of the sale, at prices related to those prevailing prices, at negotiated prices or at fixed prices. We are contractually obligated to pay all registration expenses, with certain limitations, incurred in connection with this offering.

See Risk Factors beginning on page 18 for a discussion of risks that should be considered before buying the notes offered hereunder.

**Neither the Securities and Exchange Commission nor any state securities commission nor any other regulatory body has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.**

The date of this prospectus is \_\_\_\_\_, 2011.



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**IF IT IS AGAINST THE LAW IN ANY STATE OR OTHER JURISDICTION TO MAKE AN OFFER TO SELL THE NOTES OR TO SOLICIT AN OFFER FROM SOMEONE TO BUY THE NOTES REGISTERED PURSUANT TO THE REGISTRATION STATEMENT OF WHICH THIS PROSPECTUS FORMS A PART, THEN THIS PROSPECTUS DOES NOT APPLY TO ANY PERSON IN THAT STATE OR OTHER JURISDICTION, AND NO OFFER OR SOLICITATION IS MADE BY THIS PROSPECTUS TO ANY SUCH PERSON.**

**NOTICE TO PROSPECTIVE PURCHASERS IN NEW HAMPSHIRE:** Neither the fact that a registration statement or an application for a license has been filed under this chapter with the state of New Hampshire nor the fact that a security is effectively registered or a person is licensed in the state of New Hampshire constitutes a finding by the secretary of state that any document filed under RSA 421-B is true, complete and not misleading. Neither any such fact nor the fact that an exemption or exception is available for a security or a transaction means that the secretary of state has passed in any way upon the merits or qualifications of, or recommended or given approval to, any person, security, or transaction. It is unlawful to make, or cause to be made, to any prospective purchaser, customer, or client any representation inconsistent with the provisions of this paragraph.

Potential investors who reside in any jurisdiction within the United States should carefully read **Plan of Distribution-State Blue Sky Information** beginning on page 214 for details regarding the minimum suitability standards that must be met for a potential investor to make an investment in the notes in their state of residence.

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No dealer, salesperson or other person has been authorized to give any information or to represent anything not contained in this prospectus. You must not rely on any unauthorized information or representations. This prospectus is an offer to sell only the securities offered by this prospectus, but only under circumstances and in jurisdictions where it is lawful to do so. The information contained in this prospectus is current only as of its date.

This prospectus is part of a registration statement on Form S-1 filed with the Securities and Exchange Commission, or SEC, under the Securities Act and does not contain all of the information contained in the registration statement. This information is available without charge upon written or oral request. See [Where you can find more information](#).

MagnaChip is a registered trademark of us and our subsidiaries and MagnaChip Everywhere is our registered service mark. An application for United States trademark registration of MagnaChip Everywhere is pending. All other product, service and company names mentioned in this prospectus are the service marks or trademarks of their respective owners.

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**PROSPECTUS SUMMARY**

*This summary highlights information contained elsewhere in this prospectus. This summary does not contain all of the information that you should consider before deciding to purchase the notes offered hereunder. You should read this entire prospectus carefully, including the Risk Factors and Management's Discussion and Analysis of Financial Condition and Results of Operations sections contained in this prospectus and our consolidated financial statements before making an investment decision.*

*In this prospectus, unless the context otherwise requires:*

*MagnaChip, we, us, our and Our Company refer collectively to MagnaChip Semiconductor Corporation, the parent company of our consolidated group, MagnaChip Semiconductor S.A. and MagnaChip Semiconductor Finance Company, the co-issuers of the notes being offered hereby, and their respective subsidiaries on a consolidated basis.*

*MagnaChip Semiconductor LLC refers to the limited liability company that was converted into MagnaChip Semiconductor Corporation in the corporate conversion.*

*MagnaChip Korea refers to MagnaChip Semiconductor, Ltd., our principal operating subsidiary.*

*Korea refers to the Republic of Korea or South Korea.*

*Neither of the co-issuers has any material operations and the financial statements and other financial information, as well as Management's Discussion and Analysis of Financial Condition and Results of Operations, contained in this prospectus relate to the consolidated financial statements and other consolidated information of MagnaChip. For this reason, the description of our business operations elsewhere relates to the operations of our consolidated group.*

**Overview**

MagnaChip is a Korea-based designer and manufacturer of analog and mixed-signal semiconductor products for high-volume consumer applications. We believe we have one of the broadest and deepest analog and mixed-signal semiconductor technology platforms in the industry, supported by our 30-year operating history, large portfolio of approximately 2,730 novel registered patents and 760 pending novel patent applications, and extensive engineering and manufacturing process expertise. Our business is comprised of three key segments: Display Solutions, Power Solutions and Semiconductor Manufacturing Services. Our Display Solutions products include display drivers that cover a wide range of flat panel displays and mobile multimedia devices. Our Power Solutions products include discrete and integrated circuit solutions for power management in high-volume consumer applications. Our Semiconductor Manufacturing Services segment provides specialty analog and mixed-signal foundry services for fabless semiconductor companies that serve the consumer, computing and wireless end markets.

Our wide variety of analog and mixed-signal semiconductor products and manufacturing services combined with our deep technology platform allows us to address multiple high-growth end markets and to rapidly develop and introduce new products and services in response to market demands. Our substantial manufacturing operations in Korea and design centers in Korea and Japan place us at the core of the global consumer electronics supply chain. We believe this enables us to quickly and efficiently respond to our customers' needs and allows us to better service and capture additional demand from existing and new customers.

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We have a long history of supplying and collaborating on product and technology development with leading innovators in the consumer electronics market. As a result, we have been able to strengthen our technology platform and develop products and services that are in high demand by our customers and end consumers. We sold over 2,400 and 2,300 distinct products to over 500 and 185 customers for the year ended December 31, 2010 and combined twelve-month period ended December 31, 2009, respectively, with a substantial portion of our revenues derived from a concentrated number of customers. The increase in number of customers is due to the continuing growth of our Power Solutions business. Our largest semiconductor manufacturing services customers include some of the fastest growing and leading semiconductor companies that design analog and mixed-signal products for the consumer, computing and wireless end markets.

Our business is largely driven by innovation in the consumer electronics markets and the growing adoption by consumers worldwide of electronic devices for use in their daily lives. The consumer electronics market is large and growing rapidly, largely due to consumers increasingly accessing a wide variety of available rich media content, such as high definition audio and video, mobile television and games on advanced consumer electronic devices. According to Gartner, production of liquid crystal display, or LCD televisions, smartphones, mobile personal computers, or PCs, and media tablets is expected to grow from 2010 to 2013 by a compound annual growth rate of 8%, 39%, 25%, and 99%, respectively. Electronics manufacturers are continuously implementing advanced technologies in new generations of electronic devices using analog and mixed-signal semiconductor components, such as display drivers that enable display of high resolution images, encoding and decoding devices that allow playback of high definition audio and video, and power management semiconductors that increase power efficiency, thereby reducing heat dissipation and extending battery life. According to iSuppli Corporation, in 2009, the display driver semiconductor market was \$6.2 billion and the power management semiconductor market was \$22.4 billion.

For the year ended December 31, 2010, we generated net sales of \$770.4 million, income from continuing operations of \$74.1 million, Adjusted EBITDA of \$157.9 million and Adjusted Net Income of \$89.2 million. See Prospectus Summary Summary Historical and Unaudited Pro Forma Consolidated Financial Data, beginning on page 48 for an explanation of our use of Adjusted EBITDA and Adjusted Net Income.

## **Our Products and Services**

Our Display Solutions products include source and gate drivers and timing controllers that cover a wide range of flat panel displays used in LCD, light emitting diode, or LED, and 3D televisions and displays, mobile PCs and mobile communications and entertainment devices. Our display solutions support the industry's most advanced display technologies, such as low temperature polysilicon, or LTPS, and active matrix organic light emitting diode, or AMOLED, as well as high-volume display technologies such as thin film transistor, or TFT. Our Display Solutions business represented 39.7%, 50.5% and 50.5% of our net sales for the fiscal years ended December 31, 2010, 2009 (on a combined basis) and 2008, respectively.

We expanded our business and market opportunity by establishing our Power Solutions business in late 2007. We have introduced a number of products for power management applications, including metal oxide semiconductor field effect transistors, or MOSFETs, analog switches, LED drivers, DC-DC converters and linear regulators for a range of devices, including LCD and LED digital televisions, mobile phones, computers and other consumer electronics products. Our Power Solutions business represented 7.4%, 2.2% and 0.9% of our net sales for the fiscal years ended December 31, 2010, 2009 (on a combined basis) and 2008, respectively.

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We offer semiconductor manufacturing services to fabless analog and mixed-signal semiconductor companies that require differentiated, specialty analog and mixed-signal process technologies. We believe the majority of our top twenty semiconductor manufacturing services customers use us as their primary manufacturing source for the products that we manufacture for them. Our process technologies are optimized for analog and mixed-signal devices and include standard complementary metal-oxide semiconductor, or CMOS, high voltage CMOS, ultra-low leakage high voltage CMOS and bipolar complementary double-diffused metal oxide semiconductor, or BCDMOS, and electronically erasable programmable read only memory, or EEPROM. Our semiconductor manufacturing services customers use us to manufacture a wide range of products, including display drivers, LED drivers, audio encoding and decoding devices, microcontrollers, electronic tags and power management semiconductors. Our Semiconductor Manufacturing Services business represented 52.6%, 46.7% and 47.7% of our net sales for the fiscal years ended December 31, 2010, 2009 (on a combined basis) and 2008, respectively.

We manufacture all of our products at our three fabrication facilities located in Korea. We have approximately 240 proprietary process flows we can utilize for our products and offer to our semiconductor manufacturing services customers. Our manufacturing base serves both our display driver and power management businesses and semiconductor manufacturing services customers, allowing us to optimize our asset utilization and leverage our investments across our product and service offerings. Analog and mixed-signal manufacturing facilities and processes are typically distinguished by design and process implementation expertise rather than the use of the most advanced equipment. These processes also tend to migrate more slowly to smaller geometries due to technological barriers and increased costs. For example, some of our products use high-voltage technology that requires larger geometries and that may not migrate to smaller geometries for several years, if at all. As a result, our manufacturing base and strategy does not require substantial investment in leading edge process equipment, allowing us to utilize our facilities and equipment over an extended period of time with moderate required capital investments.

## **Our Competitive Strengths**

We believe our strengths include:

Broad and advanced analog and mixed-signal semiconductor technology and intellectual property platform that allows us to develop new products and meet market demands quickly;

Established relationships and close collaboration with leading global consumer electronics companies, which enhance our visibility into new product opportunities, markets and technology trends;

Longstanding presence of our management, personnel and manufacturing base in Asia and proximity to our largest customers and to the core of the global consumer electronics supply chain, which allows us to respond rapidly and efficiently to our customers' needs;

Flexible, service-oriented culture and approach to customers;

Distinctive analog and mixed-signal process technology and manufacturing expertise; and

Manufacturing facilities with specialty processes and a low-cost operating structure, which allow us to maintain price competitiveness across our product and service offerings.

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### **Our Strategy**

Our objective is to grow our business, our cash flow and profitability and to establish our position as a leading provider of analog and mixed-signal semiconductor products and services for high-volume markets. Our business strategy emphasizes the following key elements:

Leverage our advanced analog and mixed-signal technology platform to continuously innovate and deliver products with high levels of performance and integration, as well as to expand our technology offerings within our target markets, such as our power management products;

Increase business with our global customer base of leading consumer electronics original equipment manufacturers, or OEMs, and fabless companies by collaborating on critical design, product and manufacturing process development and leveraging our deep knowledge of customer needs;

Broaden our customer base by expanding our global design centers and local application engineering support and sales presence, particularly in China and other high-growth regions;

Aggressively grow our power management product portfolio business by introducing new products, expanding distribution and cross-selling products to our existing customers;

Drive execution excellence in new product development, manufacturing efficiency and quality, customer service and personnel development; and

Optimize asset utilization and return on capital investments by maintaining our focus on specialty process technologies that do not require substantial investment in leading edge process equipment and by utilizing our manufacturing facilities for both our display driver and power management businesses and manufacturing services customers.

### **Risks Related to Our Company**

Investing in our company entails a high degree of risk, including those summarized below and those more fully described in the Risk Factors section beginning on page 18 of this prospectus.

We have a history of losses and may not be profitable in the future;

On June 12, 2009, we filed a voluntary petition for relief under Chapter 11 of the United States Bankruptcy Code and our plan of reorganization became effective on November 9, 2009;

The cyclical nature of the semiconductor industry may limit our ability to maintain or increase net sales and profit levels during industry downturns;

If we fail to develop new products and process technologies or enhance our existing products and services in order to react to rapid technological change and market demands, our business will suffer;

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A significant portion of our sales comes from a relatively limited number of customers and the loss of any of such customers or a significant decrease in sales to any of such customers would harm our revenue and gross profit; and

The average selling prices of our semiconductor products have at times declined rapidly and will likely do so in the future, which could harm our revenue and gross profit.

### **Corporate Information**

MagnaChip Semiconductor Corporation is a Delaware corporation and parent guarantor of the notes. MagnaChip Semiconductor Corporation functions as a holding and financing company for other MagnaChip entities. On a stand-alone basis, MagnaChip Semiconductor Corporation does not have any independent operations.

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On March 10, 2011 MagnaChip Semiconductor LLC converted from a Delaware limited liability company to a Delaware corporation. We refer to this as the corporate conversion. In connection with the corporate conversion, each common unit of MagnaChip Semiconductor LLC was converted into 0.125 shares of common stock of MagnaChip Semiconductor Corporation, the members of MagnaChip Semiconductor LLC became stockholders of MagnaChip Semiconductor Corporation and MagnaChip Semiconductor Corporation succeeded to the business of MagnaChip Semiconductor LLC and its consolidated subsidiaries. See [Corporate Conversion](#) for further information regarding the corporate conversion.

MagnaChip Semiconductor S.A., our Luxembourg subsidiary and one of the two co-issuers of the notes, is a Luxembourg public limited liability company (*société anonyme*). It functions as a financing company. On a stand-alone basis, MagnaChip Semiconductor S.A. does not have any independent operations. MagnaChip Semiconductor S.A. was organized on December 3, 2003.

MagnaChip Semiconductor Finance Company, a wholly-owned subsidiary of MagnaChip Semiconductor S.A. and one of the two co-issuers of the notes, is a Delaware corporation. On a stand-alone basis, MagnaChip Semiconductor Finance Company does not have any independent operations. MagnaChip Semiconductor Finance was organized on November 30, 2004.

Our principal executive offices are located at c/o MagnaChip Semiconductor S.A., 74, rue de Merl, B.P. 709 L-2146 Luxembourg R.C.S., Luxembourg B97483, and our telephone number is (352) 45-62-62. Our website address is [www.magnachip.com](http://www.magnachip.com). You should not consider the information contained on our website to be part of this prospectus.

Our business was named MagnaChip Semiconductor when it was acquired from Hynix Semiconductor, Inc., or Hynix, in October 2004. We refer to this acquisition as the Original Acquisition.

On June 12, 2009, MagnaChip Semiconductor LLC, along with certain of its subsidiaries, including MagnaChip Semiconductor S.A., filed a voluntary petition for relief in the United States Bankruptcy Court for the District of Delaware under Chapter 11 of the United States Bankruptcy Code, which we refer to as the reorganization proceedings. On November 9, 2009, our plan of reorganization became effective and we emerged from the reorganization proceedings with our management team remaining in place. Our Chapter 11 plan of reorganization implemented a comprehensive financial reorganization that significantly reduced our outstanding indebtedness. Additionally, on that date, a new board of directors of MagnaChip Semiconductor LLC was appointed, MagnaChip Semiconductor LLC's previously outstanding common and preferred units, and options were cancelled, MagnaChip Semiconductor LLC issued approximately 300 million common units (approximately 37.5 million shares of common stock following the corporate conversion) and warrants to purchase 15 million common units (approximately 1.9 million shares of common stock following the corporate conversion) to two classes of creditors and affiliated funds of Avenue Capital Management II, L.P. became the majority unitholder of MagnaChip Semiconductor LLC, which was subsequently converted to MagnaChip Semiconductor Corporation in the corporate conversion.

Avenue Capital Management II, L.P. is a global investment management firm, and it and its affiliated funds specialize in investing in high yield debt, debt of insolvent or financially distressed companies and equity of companies undergoing financial or operational turnarounds or reorganizations. In this prospectus, we refer to funds affiliated with Avenue Capital Management II, L.P. collectively as Avenue. Avenue generally does not manage or operate the companies in which it invests; however, in connection with some of its equity investments, Avenue will appoint one or more



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representatives to serve on the board of directors. Avenue was a holder of a significant portion of our indebtedness which was outstanding prior to our reorganization proceedings. In connection with our emergence from our reorganization proceedings, Avenue became our majority unitholder as a result of its participation in our rights offering and continued as a lender under our new term loan. In connection with our April 2010 senior notes offering, Avenue purchased notes in the aggregate principal amount of \$35.0 million, was repaid \$42.8 million in connection with the repayment of our new term loan and received \$91.2 million in connection with our distribution to unitholders. Avenue will continue to be able to elect a majority of our board as long as Avenue continues to hold or control a majority of our outstanding shares. See Certain Relationships and Related Transactions for additional information.

**Organizational Structure**

The following chart shows a summary of our organizational structure. MagnaChip Semiconductor S.A. and MagnaChip Semiconductor Finance Company are the co-issuers of the senior notes offered hereby. MagnaChip Semiconductor Corporation and each of its subsidiaries (other than MagnaChip Korea, the MagnaChip China Subsidiaries and certain Immaterial Subsidiaries (each as defined under the caption Description of Notes )), guarantee the notes.

- (1) Does not guarantee the notes offered hereby.

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**Summary of the Terms of the Notes**

*The following summary highlights certain material information regarding the notes contained elsewhere in this prospectus. We urge you to read this entire prospectus, including the Risk Factors section and the consolidated financial statements and related notes.*

Issuers	MagnaChip Semiconductor S.A. a société anonyme with a registered office at 74, rue de Merl, B.P. 709 L-2146 Luxembourg registered with the register of commerce and companies of Luxembourg under number B97483 and MagnaChip Semiconductor Finance Company.
Notes	\$250 million in aggregate principal amount of 10.500% Senior Notes due 2018, of which \$35 million are offered hereby.
Maturity	April 15, 2018.
Interest Rate	Interest on the notes accrues at a rate of 10.500% per annum. Interest is computed on the basis of a 360-day year comprised of twelve 30-day months.
Interest Payment Dates	Interest on the notes is payable semi-annually on April 15 and October 15 of each year, beginning on October 15, 2010.
Guarantees	The notes are fully and unconditionally guaranteed by MagnaChip Semiconductor Corporation and each of its current and future subsidiaries (other than certain Immaterial Subsidiaries, MagnaChip Korea and the MagnaChip China Subsidiaries). See Description of Notes The Note Guarantees.
Ranking	<p>The notes are the issuers' general unsecured obligations. The notes rank pari passu in right of payment with all of the issuers' existing and future unsecured indebtedness and other liabilities (including trade payables) and senior in right of payment to all future debt of the issuers that is expressly subordinated in right of payment to the notes (if any).</p> <p>The notes are effectively subordinated in right of payment to all borrowings under future secured credit facilities (to the extent of the value of the collateral securing those facilities) and to all indebtedness and other liabilities (including trade payables) of any non-guarantor subsidiaries. Our non-guarantor subsidiaries generated approximately 98.8% and 69.2% of our aggregate consolidated revenues for the year ended December 31, 2010 and the combined twelve-month period ended December 31, 2009, respectively, and as of December 31, 2010 and December 31, 2009 held approximately 86.3% and 87.3% of our consolidated assets and had \$202.8 million and \$166.2 million in total outstanding indebtedness and other liabilities, excluding intercompany liabilities.</p>

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The note guarantees are the guarantors' general unsecured obligations. Each guarantee is effectively subordinated in right of payment to all future secured debt of the guarantor, is pari passu in right of payment with all existing and future unsecured indebtedness and other liabilities (including trade payables) of the guarantor and senior in right of payment to any future subordinated indebtedness of the guarantor (if any).

Optional Redemption

On or after April 15, 2014, we may on one or more occasions redeem some or all of the notes at any time at the redemption prices set forth under "Description of Notes - Optional Redemption," plus accrued and unpaid interest and special interest, if any, to the applicable redemption date.

In addition, at any time prior to April 15, 2013, we may on one or more occasions redeem up to 35% of the aggregate principal amount of the notes with the net cash proceeds of certain qualified equity offerings, at a redemption price equal to 110.500% of the principal amount of the notes to be redeemed plus accrued and unpaid interest and special interest, if any, to the redemption date.

Also, at any time prior to April 15, 2014, we may, on one or more occasions, redeem some or all of the notes at a redemption price equal to 100% of the principal amount of the notes redeemed, plus accrued and unpaid interest and special interest, if any, to the redemption date and a "make-whole" premium.

See "Description of Notes - Optional Redemption."

Additional Amounts; Tax Redemption

Payments on the notes will be made without withholding or deduction for any current or future taxes, unless required by law. If withholding is required, we will pay such additional amounts as may be necessary in order that the net amounts received by holders of the notes will equal the amounts that would have been received if taxes had not been withheld, subject to the limitations set forth under "Description of Notes - Additional Amounts."

We may redeem the notes in whole but not in part, at our discretion, at a redemption price equal to the principal amount of the notes outstanding plus accrued and unpaid interest, special interest and additional amounts due, if any, to the redemption date, if we are or would be required to pay any such additional amounts as a result of specified changes in laws, treaties, regulations or rulings, or specified changes in application, administration or interpretation of such laws, treaties, regulations or rulings, subject to certain limitations. See "Description of Notes - Redemption Upon Changes in Withholding Taxes."

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Change of Control Offer	If we experience certain change of control events, we must offer to repurchase the notes at 101% of their principal amount, plus accrued and unpaid interest and special interest, if any, to the applicable repurchase date. See Description of Notes Repurchase at the Option of Holders Change of Control.
Asset Sale Offer	Under certain circumstances, if we sell assets and do not use the proceeds from the sale as specified in the indenture, we must apply the proceeds therefrom to an offer to repurchase, prepay or redeem the notes at 100% of their principal amount, plus accrued and unpaid interest and special interest, if any, to the applicable repurchase date. See Description of Notes Repurchase at the Option of Holders Asset Sales.
Restrictive Covenants	<p>The notes were issued under an indenture containing covenants that, among other things, restrict the ability of MagnaChip Semiconductor Corporation and its restricted subsidiaries (including the issuers) to:</p> <ul style="list-style-type: none"><li>pay dividends, redeem shares, make payments with respect to subordinated indebtedness, or make other restricted payments;</li><li>incur additional indebtedness or issue preferred stock;</li><li>create liens;</li><li>make certain investments;</li><li>consolidate, merge or dispose of all or substantially all of our assets, taken as a whole;</li><li>sell or otherwise transfer or dispose of assets, including equity interests of subsidiaries;</li><li>enter into sale-leaseback transactions;</li><li>enter into transactions with our affiliates; and</li><li>designate our subsidiaries as unrestricted subsidiaries.</li></ul> <p>These covenants are subject to a number of important exceptions and qualifications. See Description of Notes Certain Covenants. Certain of these restrictive covenants will terminate if the notes are rated investment-grade.</p>
Risk Factors	See Risk Factors for a description of certain risks you should consider before deciding to purchase the notes offered hereby.



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Ratio of Earnings to Fixed Charges

The following table sets forth our ratio of earnings to fixed charges for each of the periods indicated:

Year Ended	Successor	Ten-Month Period Ended October	Predecessor		
	Two-Month Period Ended December		Years Ended December 31,		
December 31, 2010	31, 2009	25, 2009	2008	2007	2006
	4.0x	21.2x			

Where a dash appears, our earnings were negative and were insufficient to cover fixed charges during the period. Our deficiencies to cover fixed charges in each period presented were as follows:

	Successor	Predecessor		
	Two-Month Period Ended December	Years Ended December 31,		
	31, 2009	2008	2007	2006
		(in millions)		
Deficiencies	\$ 0.5	\$ 327.5	\$ 132.0	\$ 78.8

See [Ratio of Earnings to Fixed Charges](#) for additional information.

Use of Proceeds

The net proceeds from the sale of the notes offered hereby will be received by the selling securityholders. We will not receive any of the proceeds from any sale by any selling securityholder of the notes covered by this prospectus.

No Established Trading Market

There is no established trading market for the notes. The notes are not listed on any securities exchange or on any automated dealer quotation system. We cannot assure you that an active or liquid trading market for the notes will develop. If an active or liquid trading market for the notes does not develop, the market price and liquidity of the notes may be adversely affected.

Form and Denominations

The notes were issued in minimum denominations of \$2,000 and integral multiples of \$1,000 in excess thereof. The notes are book-entry only and registered in the name of a nominee of the Depository Trust Company, or DTC, in the noteholders register held at the registered office of the issuers. Holders of the notes may elect to hold interests in the notes through Clearstream Banking, S.A., or Euroclear Bank S.A./N.V., as operator of the Euroclear system, either as direct participants in those systems or indirectly through organizations that are participants in those systems.



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**Summary Historical and Unaudited Pro Forma Consolidated Financial Data**

The following tables set forth summary historical and unaudited pro forma consolidated financial data of MagnaChip Semiconductor Corporation on or as of the dates and for the periods indicated. The summary historical and unaudited pro forma consolidated financial data presented below should be read together with Selected Historical Consolidated Financial and Operating Data, Unaudited Pro Forma Consolidated Financial Information, Management's Discussion and Analysis of Financial Condition and Results of Operations and our audited and unaudited consolidated financial statements, including the notes to those consolidated financial statements, appearing elsewhere in this prospectus.

We have derived the summary historical consolidated financial data as of December 31, 2010 and 2009, and for the year ended December 31, 2010, the two-month period ended December 31, 2009, the ten-month period ended October 25, 2009 and the year ended December 31, 2008 from the historical audited consolidated financial statements of MagnaChip Semiconductor Corporation prepared in accordance with generally accepted accounting principles in the United States, or GAAP, included elsewhere in this prospectus. The summary historical financial data for the year ended December 31, 2010 and the two-month period ended December 31, 2009 give retroactive effect to the corporate conversion. The historical results of MagnaChip Semiconductor Corporation for any prior period are not necessarily indicative of the results to be expected in any future period, and financial results for any interim period are not necessarily indicative of results for a full year.

In connection with our emergence from reorganization proceedings, we implemented fresh-start reporting, or fresh-start accounting, in accordance with Accounting Standards Codification 852, or ASC 852 governing reorganizations. We elected to adopt a convenience date of October 25, 2009 (a month end for our financial reporting purposes) for application of fresh-start accounting. In accordance with the ASC 852 rules governing reorganizations, we recorded largely non-cash reorganization income and expense items directly associated with our reorganization proceedings including professional fees, the revaluation of assets, the effects of our reorganization plan and fresh-start accounting and write-off of debt issuance costs. As a result of the application of fresh-start accounting, our financial statements prior to and including October 25, 2009 represent the operations of our pre-reorganization predecessor company and are presented separately from the financial statements of our post-reorganization successor company. As a result of the application of fresh-start accounting, the financial statements prior to and including October 25, 2009 are not fully comparable with the financial statements for periods on or after October 26, 2009.

We have prepared the summary unaudited pro forma financial data as of and for the year ended December 31, 2010 to give pro forma effect to the reorganization proceedings and related events, the corporate conversion and the issuance of \$250 million senior notes and the application of the net proceeds therefrom, in each case as if they had occurred at January 1, 2010 with respect to consolidated statement of operations data. The summary unaudited pro forma financial data set forth below are presented for informational purposes only, should not be considered indicative of actual results of operations that would have been achieved had the reorganization proceedings and related events, the corporate conversion and the issuance of \$250 million senior notes and the application of the net proceeds therefrom been consummated on the dates indicated, and do not purport to be indicative of our results of operations for any future period.



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	Pro Forma(1)	Successor		Historical	Predecessor
	Year Ended December	Year Ended	Two-Month Period Ended	Ten-Month Period Ended	Year Ended December
	31, 2010	December 31, 2010	December 31, 2009	October 25, 2009	31, 2008
	(In millions, except per common unit/share data)				
<b>Statements of Operations Data:</b>					
Net sales	\$ 770.4	\$ 770.4	\$ 111.1	\$ 449.0	\$ 601.7
Cost of sales	526.0	526.8	90.4	311.1	445.3
Gross profit	244.4	243.6	20.7	137.8	156.4
Selling, general and administrative expenses	66.6	66.6	14.5	56.3	81.3
Research and development expenses	83.5	83.5	14.7	56.1	89.5
Restructuring and impairment charges	2.0	2.0		0.4	13.4
Operating income (loss) from continuing operations	92.3	91.4	(8.6)	25.0	(27.7)
Interest expense, net	(27.9)	(22.9)	(1.3)	(31.2)	(76.1)
Foreign currency gain (loss), net	14.7	14.7	9.3	43.4	(210.4)
Reorganization items, net				804.6	
Others	(0.7)	(0.7)			
	(13.9)	(8.9)	8.1	816.8	(286.5)
Income (loss) from continuing operations before income taxes	78.4	82.5	(0.5)	841.8	(314.3)
Income tax expenses	12.0	8.4	1.9	7.3	11.6
Income (loss) from continuing operations	\$ 66.4	74.1	(2.5)	834.5	(325.8)
Income (loss) from discontinued operations, net of taxes			0.5	6.6	(91.5)
Net income (loss)		\$ 74.1	\$ (2.0)	\$ 841.1	\$ (417.3)
Dividends accrued on preferred units				6.3	13.3
Income (loss) from continuing operations attributable to common units/shares		\$ 74.1	\$ (2.5)	\$ 828.2	\$ (339.1)
Per common unit/share data:					
Earnings (loss) from continuing operations per common unit/share					
Basic	\$ 1.75	\$ 1.96	\$ (0.07)	\$ 15.65	\$ (6.43)
Diluted	\$ 1.70	\$ 1.89	\$ (0.07)	\$ 15.65	\$ (6.43)
Weighted average number of common units/stock					
Basic	37.836	37.836	37.608	52.923	52.769
Diluted	39.144	39.144	37.608	52.923	52.769
<b>Consolidated Balance Sheet Data (at period end):</b>					
Cash and cash equivalents		\$ 172.2	\$ 64.9		\$ 4.0
Total assets		625.7	453.3		399.2
Total indebtedness(2)		246.9	61.8		845.0
Long-term obligations(3)		250.0	61.5		143.2
Total unitholders /stockholders equity (deficit)		162.9	215.7		(787.8)
<b>Supplemental Data (unaudited):</b>					
Adjusted EBITDA(4)	\$ 157.9	\$ 157.9	\$ 22.1	\$ 76.6	\$ 59.8
Adjusted Net Income (Loss)(5)	80.6	89.2	13.3	9.3	(71.7)

- (1) Gives effect to the reorganization proceedings and related events, the corporate conversion and the issuance of \$250 million senior notes and the application of the net proceeds therefrom. For details regarding these pro forma adjustments, see the notes to the unaudited pro forma condensed consolidated financial information in Unaudited Pro Forma Consolidated Financial Information.
- (2) Total indebtedness is calculated as long and short-term borrowings, including the current portion of long-term borrowings.

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- (3) Long-term obligations include long-term borrowings, capital leases and redeemable convertible preferred units.
- (4) We define Adjusted EBITDA as net income (loss) less income (loss) from discontinued operations, net of taxes, adjusted to exclude (i) depreciation and amortization associated with continuing operations, (ii) interest expense, net, (iii) income

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tax expenses (benefits), (iv) restructuring and impairment charges, (v) other restructuring charges, (vi) abandoned IPO expenses, (vii) reorganization items, net, (viii) the increase in cost of sales resulting from the fresh-start accounting inventory step-up, (ix) equity-based compensation expense, (x) foreign currency gain (loss), net and (xi) derivative valuation gain (loss), net. See the footnotes to the table below for further information regarding these items. In the case of pro forma Adjusted EBITDA, we exclude the items above from income (loss) from continuing operations. We present Adjusted EBITDA as a supplemental measure of our performance because:

Adjusted EBITDA eliminates the impact of a number of items that may be either one time or recurring that we do not consider to be indicative of our core ongoing operating performance;

we believe that Adjusted EBITDA is an enterprise level performance measure commonly reported and widely used by analysts and investors in our industry;

we anticipate that our investor and analyst presentations after we are public will include Adjusted EBITDA; and

we believe that Adjusted EBITDA provides investors with a more consistent measurement of period to period performance of our core operations, as well as a comparison of our operating performance to that of other companies in our industry. We use Adjusted EBITDA in a number of ways, including:

for planning purposes, including the preparation of our annual operating budget;

to evaluate the effectiveness of our enterprise level business strategies;

in communications with our board of directors concerning our consolidated financial performance; and

in certain of our compensation plans as a performance measure for determining incentive compensation payments.

We encourage you to evaluate each adjustment and the reasons we consider them appropriate. In evaluating Adjusted EBITDA, you should be aware that in the future we may incur expenses similar to the adjustments in this presentation. Adjusted EBITDA is not a measure defined in accordance with GAAP and should not be construed as an alternative to income from continuing operations, cash flows from operating activities or net income (loss), as determined in accordance with GAAP. A reconciliation of net income (loss) to Adjusted EBITDA is as follows:

	Pro Forma	Successor	Historical	Predecessor	
	Year Ended	Year Ended	Two-Month	Ten-Month	
	December 31,	December 31,	Period Ended	Period Ended	
	2010	2010	December	October	
			31,	25,	
			2009	2009	
				Year Ended	
				December 31,	
				2008	
			(In millions)		
Net income (loss)		\$ 74.1	\$ (2.0)	\$ 841.1	\$ (417.3)
Less: Income (loss) from discontinued operations, net of taxes			0.5	6.6	(91.5)
Income (loss) from continuing operations	\$ 66.4	74.1	(2.5)	834.5	(325.8)
Adjustments:					
Depreciation and amortization associated with continuing operations	58.4	58.4	11.2	37.7	63.8

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Interest expense, net	27.9	22.9	1.3	31.2	76.1
Income tax expenses	12.0	8.4	1.9	7.3	11.6
Restructuring and impairment charges(a)	2.0	2.0		0.4	13.4
Other restructuring charges(b)				13.3	6.2
Abandoned IPO expenses(c)					3.7
Reorganization items, net(d)				(804.6)	
Inventory step-up(e)		0.9	17.2		
Equity-based compensation expense(f)	5.2	5.2	2.2	0.2	0.5
Foreign currency loss (gain), net(g)	(14.7)	(14.7)	(9.3)	(43.4)	210.4
Derivative valuation loss, net(h)	0.7	0.7			
Adjusted EBITDA	\$ 157.9	\$ 157.9	\$ 22.1	\$ 76.6	\$ 59.8

- (a) This adjustment is comprised of all items included in the restructuring and impairment charges line item on our consolidated statements of operations, and eliminates the impact of restructuring and impairment charges related to (i) for 2010, impairment charges of \$2.0 million recorded, of which \$1.6 million of impairment charges were recognized for abandoned in-process research and development projects and \$0.4 million of impairment charges were recognized as a result of an annual impairment test of in-process research and development, accounted for as indefinite-lived intangible assets as part of the application of fresh-start accounting, (ii) for 2009, termination

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benefits and other related costs, for the ten-month period ended October 25, 2009 in connection with the closure of one of our research and development facilities in Japan, and (iii) for 2008, goodwill impairment triggered by the significant adverse change in the revenue of our mobile display solutions, or MDS reporting unit, and a reversal of a portion of the restructuring accrual related to the closure of our Gumi five-inch wafer fabrication facilities in 2007. We do not believe these restructuring and impairment charges are indicative of our core ongoing operating performance because we do not anticipate similar facility closures and market driven events in our ongoing operations, although we cannot guarantee that similar events will not occur in the future.

- (b) This adjustment relates to certain restructuring charges that are not included in the restructuring and impairment charges line item on our consolidated statements of operations. These items are included in selling, general and administrative expenses in our consolidated statements of operations. These charges are comprised of the following: (i) for 2009, a charge of \$13.3 million for restructuring-related professional fees and related expenses and (ii) for 2008, a charge of \$6.2 million for restructuring-related professional fees and related expenses. We do not believe these other restructuring charges are indicative of our core ongoing operating performance because these charges were related, in significant part, to actions we took in response to the impacts on our business resulting from the global economic recession that persisted through 2008 and 2009. We cannot guarantee that similar charges will not be incurred in the future.
- (c) This adjustment eliminates a \$3.7 million charge in 2008 related to expenses incurred in connection with our abandoned initial public offering in 2008. We do not believe that these charges are indicative of our core operating performance. We incurred similar costs in connection with the MagnaChip Corporation IPO.
- (d) This adjustment eliminates the impact of largely non-cash reorganization income and expense items directly associated with our reorganization proceedings from our ongoing operations including, among others, professional fees, the revaluation of assets, the effects of the Chapter 11 reorganization plan and fresh-start accounting principles and the write-off of debt issuance costs. Included in reorganization items, net for the period from January 1 to October 25, 2009 was our predecessor's gain recognized from the effects of our reorganization proceedings. The gain results from the difference between our predecessor's carrying value of remaining pre-petition liabilities subject to compromise and the amounts to be distributed pursuant to the reorganization proceedings. The gain from the effects of the reorganization proceedings and the application of fresh-start accounting principles is comprised of the discharge of liabilities subject to compromise, net of the issuance of new common units and new warrants and the accrual of amounts to be settled in cash. For details regarding this adjustment, see note 5 to the consolidated financial statements of MagnaChip Semiconductor Corporation included elsewhere in this prospectus. We do not believe these items are indicative of our core ongoing operating performance because they were incurred as a result of our Chapter 11 reorganization.
- (e) This adjustment eliminates the one-time impact on cost of sales associated with the write-up of our inventory in accordance with the principles of fresh-start accounting upon consummation of the Chapter 11 reorganization.
- (f) This adjustment eliminates the impact of non-cash equity-based compensation expenses. Although we expect to incur non-cash equity-based compensation expenses in the future, we believe that analysts and investors will find it helpful to review our operating performance without the effects of these non-cash expenses, as supplemental information.
- (g) This adjustment eliminates the impact of non-cash foreign currency translation associated with intercompany debt obligations and foreign currency denominated receivables and payables, as well as the cash impact of foreign currency transaction gains or losses on collection of such receivables and payment of such payables. Although we expect to incur foreign currency translation gains or losses in the future, we believe that analysts and investors will find it helpful to review our operating performance without the effects of these primarily non-cash gains or losses, as supplemental information.
- (h) This adjustment eliminates the impact of gain or loss recognized in income on derivatives, which represents hedge ineffectiveness or derivatives value changes excluded from the risk being hedged. We enter into derivative transactions to mitigate foreign exchange risks. As our derivative transactions are limited to a certain portion of our expected cash flows denominated in USD, and we do not enter into derivative transactions for trading or speculative purposes, we do not believe that these charges or gains are indicative of our core operating performance.

Adjusted EBITDA has limitations as an analytical tool, and you should not consider it in isolation, or as a substitute for analysis of our results as reported under GAAP. Some of these limitations are:

Adjusted EBITDA does not reflect our cash expenditures, or future requirements, for capital expenditures or contractual commitments;

Adjusted EBITDA does not reflect changes in, or cash requirements for, our working capital needs;

Adjusted EBITDA does not reflect the interest expense, or the cash requirements necessary to service interest or principal payments, on our debt;

although depreciation and amortization are non-cash charges, the assets being depreciated and amortized will often have to be replaced in the future, and Adjusted EBITDA does not reflect any cash requirements for such replacements;

Adjusted EBITDA does not consider the potentially dilutive impact of issuing equity-based compensation to our management team and employees;



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Adjusted EBITDA does not reflect the costs of holding certain assets and liabilities in foreign currencies; and

other companies in our industry may calculate Adjusted EBITDA differently than we do, limiting its usefulness as a comparative measure.

Because of these limitations, Adjusted EBITDA should not be considered as a measure of discretionary cash available to us to invest in the growth of our business. We compensate for these limitations by relying primarily on our GAAP results and using Adjusted EBITDA only supplementally.

- (5) We present Adjusted Net Income as a further supplemental measure of our performance. We prepare Adjusted Net Income by adjusting net income (loss) to eliminate the impact of a number of non-cash expenses and other items that may be either one time or recurring that we do not consider to be indicative of our core ongoing operating performance. We believe that Adjusted Net Income is particularly useful because it reflects the impact of our asset base and capital structure on our operating performance.

We present Adjusted Net Income for a number of reasons, including:

we use Adjusted Net Income in communications with our board of directors concerning our consolidated financial performance;

we believe that Adjusted Net Income is an enterprise level performance measure commonly reported and widely used by analysts and investors in our industry; and

we anticipate that our investor and analyst presentations after we are public will include Adjusted Net Income.

Adjusted Net Income is not a measure defined in accordance with GAAP and should not be construed as an alternative to income from continuing operations, cash flows from operating activities or net income (loss), as determined in accordance with GAAP. We encourage you to evaluate each adjustment and the reasons we consider them appropriate. Other companies in our industry may calculate Adjusted Net Income differently than we do, limiting its usefulness as a comparative measure. In addition, in evaluating Adjusted Net Income, you should be aware that in the future we may incur expenses similar to the adjustments in this presentation. We define Adjusted Net Income as net income (loss) less income (loss) from discontinued operations, net of taxes, excluding (i) restructuring and impairment charges, (ii) other restructuring charges, (iii) abandoned IPO expenses, (iv) reorganization items, net, (v) the increase in cost of sales resulting from the fresh-start accounting inventory step-up, (vi) equity-based compensation expense, (vii) amortization of intangibles associated with continuing operations, (viii) foreign currency gain (loss), net and (ix) derivative valuation gain (loss), net.

The following table summarizes the adjustments to net income (loss) that we make in order to calculate Adjusted Net Income for the periods indicated:

	Pro Forma		Historical		
	Year Ended	Year Ended	Two-Month	Ten-Month	
	December 31,	December 31,	Period Ended	Period Ended	
	2010	2010	December 31,	October	
			2009	25,	
				2009	
				31,	
				2008	
	(In millions)				
Net income (loss)		\$ 74.1	\$ (2.0)	\$ 841.1	\$ (417.3)
Less: Income (loss) from discontinued operations, net of taxes			0.5	6.6	(91.5)
Income (loss) from continuing operations	\$ 66.4	74.1	(2.5)	834.5	(325.8)
Adjustments:					

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Restructuring and impairment charges(a)	2.0	2.0		0.4	13.4
Other restructuring charges(b)				13.3	6.2
Abandoned IPO expenses(c)					3.7
Reorganization items, net(d)				(804.6)	
Inventory step-up(e)		0.9	17.2		
Equity-based compensation expense(f)	5.2	5.2	2.2	0.2	0.5
Amortization of intangibles associated with continuing operations(g)	21.0	21.0	5.6	8.8	20.0
Foreign currency loss (gain), net(h)	(14.7)	(14.7)	(9.3)	(43.4)	210.4
Derivative valuation loss, net(i)	0.7	0.7			
Adjusted Net income (loss)	\$ 80.6	\$ 89.2	\$ 13.3	\$ 9.3	\$ (71.7)

- (a) This adjustment is comprised of all items included in the restructuring and impairment charges line item on our consolidated statements of operations, and eliminates the impact of restructuring and impairment charges related to (i) for 2010, impairment charges of \$2.0 million recorded, of which \$1.6 million of impairment charges were recognized for abandoned in-process research and development projects and \$0.4 million of impairment charges



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were recognized as a result of an annual impairment test of in-process research and development, accounted for as indefinite-lived intangible assets as part of the application of fresh-start accounting, (ii) for 2009, termination benefits and other related costs, for the ten-month period ended October 25, 2009 in connection with the closure of one of our research and development facilities in Japan, and (iii) for 2008, goodwill impairment triggered by the significant adverse change in the revenue of our MDS reporting unit and a reversal of a portion of the restructuring accrual related to the closure of our Gumi five-inch wafer fabrication facilities in 2007. We do not believe these restructuring and impairment charges are indicative of our core ongoing operating performance because we do not anticipate similar facility closures and market driven events in our ongoing operations, although we cannot guarantee that similar events will not occur in the future.

- (b) This adjustment relates to certain restructuring charges that are not included in the restructuring and impairment charges line item on our consolidated statements of operations. These items are included in selling, general and administrative expenses in our consolidated statements of operations. These charges are comprised of the following: (i) for 2009, a charge of \$13.3 million for restructuring-related professional fees and related expenses, and (ii) for 2008, a charge of \$6.2 million for restructuring-related professional fees and related expenses. We do not believe these other restructuring charges are indicative of our core ongoing operating performance because these charges were related, in significant part, to actions we took in response to the impacts on our business resulting from the global economic recession that persisted through 2008 and 2009. We cannot guarantee that similar charges will not be incurred in the future.
- (c) This adjustment eliminates a \$3.7 million charge in 2008 related to expenses incurred in connection with our abandoned initial public offering in 2008. We do not believe that these charges are indicative of our core operating performance. We incurred similar costs in connection with the MagnaChip Corporation IPO.
- (d) This adjustment eliminates the impact of largely non-cash reorganization income and expense items directly associated with our reorganization proceedings from our ongoing operations including, among others, professional fees, the revaluation of assets, the effects of the Chapter 11 reorganization plan and fresh-start accounting principles and the write-off of debt issuance costs. Included in reorganization items, net for the ten-month period ended October 25, 2009 was our predecessor's gain recognized from the effects of our reorganization proceedings. The gain results from the difference between our predecessor's carrying value of remaining pre-petition liabilities subject to compromise and the amounts to be distributed pursuant to the reorganization proceedings. The gain from the effects of the reorganization proceedings and the application of fresh-start accounting principles is comprised of the discharge of liabilities subject to compromise, net of the issuance of new common units and new warrants and the accrual of amounts to be settled in cash. For details regarding this adjustment, see note 5 to the consolidated financial statements of MagnaChip Semiconductor Corporation included elsewhere in this prospectus. We do not believe these items are indicative of our core ongoing operating performance because they were incurred as a result of our reorganization proceedings.
- (e) This adjustment eliminates the one-time impact on cost of sales associated with the write-up of our inventory in accordance with the principles of fresh-start accounting upon consummation of the Chapter 11 reorganization.
- (f) This adjustment eliminates the impact of non-cash equity-based compensation expenses. Although we expect to incur non-cash equity-based compensation expenses in the future, we believe that analysts and investors will find it helpful to review our operating performance without the effects of these non-cash expenses, as supplemental information.
- (g) This adjustment eliminates the non-cash impact of amortization expense for intangible assets created as a result of the purchase accounting treatment of the Original Acquisition and other subsequent acquisitions, and from the application of fresh-start accounting in connection with the reorganization proceedings. We do not believe these non-cash amortization expenses for intangibles are indicative of our core ongoing operating performance because the assets would not have been capitalized on our balance sheet but for the application of acquisition accounting or fresh-start accounting, as applicable.
- (h) This adjustment eliminates the impact of non-cash foreign currency translation associated with intercompany debt obligations and foreign currency denominated receivables and payables, as well as the cash impact of foreign currency transaction gains or losses on collection of such receivables and payment of such payables. Although we expect to incur foreign currency translation gains or losses in the future, we believe that analysts and investors will find it helpful to review our operating performance without the effects of these primarily non-cash gains or losses, as supplemental information.
- (i) This adjustment eliminates the impact of gain or loss recognized in income on derivatives, which represents hedge ineffectiveness or derivatives value changes excluded from the risk being hedged. We enter into derivative transactions to mitigate foreign exchange risks. As our derivative transactions are limited to a certain portion of our expected cash flows denominated in USD, and we do not enter into derivative transactions for trading or speculative purposes, we do not believe that these charges or gains are indicative of our core operating performance.

Adjusted Net Income has limitations as an analytical tool, and you should not consider it in isolation, or as a substitute for analysis of our results as reported under GAAP. Some of these limitations are:

Adjusted Net Income does not reflect our cash expenditures, or future requirements, for capital expenditures or contractual commitments;

Adjusted Net Income does not reflect changes in, or cash requirements for, our working capital needs;

Adjusted Net Income does not consider the potentially dilutive impact of issuing equity-based compensation to our management team and employees;



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Adjusted Net Income does not reflect the costs of holding certain assets and liabilities in foreign currencies; and

other companies in our industry may calculate Adjusted Net Income differently than we do, limiting its usefulness as a comparative measure.

Because of these limitations, Adjusted Net Income should not be considered as a measure of discretionary cash available to us to invest in the growth of our business. We compensate for these limitations by relying primarily on our GAAP results and using Adjusted Net Income only supplementally.

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**RISK FACTORS**

*You should carefully consider the risk factors set forth below as well as the other information contained in this prospectus. Any of the following risks could materially and adversely affect our business, financial condition or results of operations. As a result, the price of our securities could decline and you could lose all or part of your investment in our securities. Additional risks and uncertainties not currently known to us or those currently viewed by us to be immaterial may also materially and adversely affect our business, financial condition or results of operations.*

**Risks Related to the Notes**

*There is no public trading market for the notes and an active trading market may not develop for the notes.*

There is no established trading market for the notes. We do not intend to apply for listing or quotation of the notes on any securities exchange or stock market. We have been advised by Goldman, Sachs & Co., Barclays Capital Inc., Deutsche Bank Securities Inc., Morgan Stanley & Co. Incorporated, Citigroup Global Markets Inc., Credit Suisse Securities (USA) LLC and UBS Securities LLC, which acted as initial purchasers in connection with the offer and sale of the senior notes, that certain of the initial purchasers intend to make a market in the notes but are not obligated to do so and may discontinue market making at any time without notice. No assurance can be given as to the liquidity of the trading market for the notes. In addition, any liquidity of the trading market in the notes, and the market price quoted for the notes, may be adversely affected by changes in the overall market for high yield securities and by changes in our financial performance or prospects or in the prospects for companies in our industry generally. As a result, we cannot assure you that an active trading market will develop for the notes.

*To service our debt, we will require a significant amount of cash. if we fail to generate sufficient cash flow from future operations, we may have to refinance all or a portion of our debt or seek to obtain additional financing.*

We expect to obtain the funds to pay our expenses and to pay the amounts due under the notes and our other debt primarily from the operations of our subsidiaries, including our principal manufacturing subsidiary, MagnaChip Korea. Our ability to meet our expenses and make these payments thus depends on the future performance of our subsidiaries, which will be affected by financial, business, economic and other factors, many of which are beyond our control, and their payment of funds to the issuers. Our business and the business of our subsidiaries may not generate sufficient cash flow from operations in the future, our currently anticipated growth in revenue and cash flow may not be realized, and our subsidiaries, including MagnaChip Korea, may be restricted in their ability to make payments to us, any or all of which could result in us being unable to pay amounts due under our outstanding debt, including the notes, or to fund other liquidity needs, such as future capital expenditures. If we do not receive sufficient cash flow from the operations of our subsidiaries, we may be required to refinance all or part of our then existing debt (including the notes), sell assets, reduce or delay capital expenditures or borrow more money. We cannot assure you that we will be able to accomplish any of these alternatives on terms acceptable to us or at all. In addition, the terms of existing or future debt agreements, including the indenture governing the notes, may restrict us from adopting any of these alternatives. The failure to generate sufficient cash flow or to achieve any of these alternatives could materially adversely affect the value of the notes and our ability to pay the amounts due under the notes and our other debt.

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### ***We may be unable to repay or repurchase the notes.***

At maturity, the entire outstanding principal amount of the notes, together with accrued and unpaid interest, will become due and payable. We may not have the funds to fulfill these obligations or the ability to refinance the obligations before they become due. If the maturity date occurs at a time when other arrangements prohibit us from repaying the notes, we would try to obtain waivers of such prohibitions from the lenders and holders under those arrangements, or we could attempt to refinance the borrowings that contain the restrictions. If we could not obtain the waivers or refinance these borrowings, we would be unable to repay the notes when they become due.

### ***A financial failure by us or any guarantor may hinder the receipt of payment on the notes and enforcement of remedies under the guarantees.***

An investment in the notes, as in any type of security, involves insolvency and bankruptcy considerations that investors should carefully consider. If we or any of the guarantors becomes a debtor subject to insolvency proceedings under the United States Bankruptcy Code or comparable provisions of other jurisdictions, it is likely to result in delays in the payment of the notes and in the exercise of enforcement remedies under the notes or the guarantees. Provisions under the United States Bankruptcy Code or general principles of equity that could result in the impairment of your rights include the automatic stay, avoidance of preferential transfers by a trustee or debtor-in-possession, substantive consolidation, limitations on collectability of unmaturing interest or attorneys' fees and forced restructuring of the notes.

### ***The notes and the guarantees are effectively subordinated to all borrowing under our future secured credit facilities and to all indebtedness and other liabilities of our non-guarantor subsidiaries.***

The notes and the guarantees are effectively subordinated in right of payment to claims of our future secured creditors to the extent of the value of the assets securing such claims. We currently do not have any secured indebtedness outstanding to which the notes are effectively subordinated. Holders of our future secured obligations will have claims that are prior to the claims of holders of the notes with respect to the assets securing those obligations. In the event of a liquidation, dissolution, reorganization, bankruptcy or any similar proceeding, our assets and those of our subsidiaries will be available to pay obligations on the notes and the guarantees only after holders of any senior secured debt outstanding have been paid the value of the assets securing such obligations. Accordingly, there may not be sufficient funds remaining to pay amounts due on any or all of the notes.

In addition, not all of our subsidiaries guarantee the notes. The notes and the guarantees are effectively subordinated to the indebtedness and other liabilities (including trade payables) of any non-guarantor subsidiary and holders of the notes do not have any claim as a creditor against any non-guarantor subsidiary. Our non-guarantor subsidiaries generated approximately 98.8% and 69.2% of our aggregate consolidated revenues for the year ended December 31, 2010 and the combined twelve-month period ended December 31, 2009, respectively, and as of December 31, 2010 and December 31, 2009 held approximately 86.3% and 87.3% of our consolidated assets and had \$202.8 million and \$166.2 million in total outstanding indebtedness and other liabilities, excluding intercompany liabilities.

### ***A court could void the guarantees of the notes under fraudulent transfer or similar laws, which could limit your ability to seek repayment from the guarantors.***

Although the guarantees provide the noteholders with a direct claim against the assets of the guarantors, under the United States Bankruptcy Code and comparable provisions of the fraudulent transfer and similar laws in other applicable jurisdictions, a guarantee could be voided, or claims with

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respect to a guarantee could be subordinated to all other debts of that guarantor. In addition, a bankruptcy court could void (i.e., cancel) any payments by that guarantor pursuant to its guarantee and require those payments to be returned to the guarantor or to a fund for the benefit of the other creditors of the guarantor. A bankruptcy court might take these actions if it found, among other things, that when a subsidiary guarantor executed its guarantee (or, in some jurisdictions, when it became obligated to make payments under its guarantee):

such subsidiary guarantor received less than reasonably equivalent value or fair consideration for the incurrence of its guarantee; and

such subsidiary guarantor:

was insolvent at the time of (or was rendered insolvent by) the incurrence of the guarantee;

was engaged or about to engage in a business or transaction for which its assets constituted unreasonably small capital to carry on its business; or

intended to incur, or believed that it would incur, obligations beyond its ability to pay as those obligations matured.

A bankruptcy court could find that a guarantor received less than fair consideration or reasonably equivalent value for its guarantee to the extent that it did not receive direct or indirect benefit from the issuance of the notes. A bankruptcy court could also void a guarantee if it found that the guarantor issued its guarantee with actual intent to hinder, delay, or defraud creditors. Although courts in different jurisdictions measure solvency differently, in general, an entity would be deemed insolvent if the sum of its debts, including contingent and unliquidated debts, exceeds the fair value of its assets, or if the present fair salable value of its assets is less than the amount that would be required to pay the expected liability on its debts, including contingent and unliquidated debts, as they become due. If a court voided a guarantee, it could require that noteholders return any amounts previously paid under such guarantee. If any guarantee were voided, noteholders would retain their rights against us and any other guarantors, although there is no assurance that those entities' assets would be sufficient to pay the notes in full.

***Any future guarantees provided after the notes are issued could also be avoided by a trustee in bankruptcy.***

The indenture governing the notes provides that certain of our future subsidiaries will guarantee the notes. Any future guarantee might be avoidable by the guarantor or by its trustee in bankruptcy or other third parties if certain events or circumstances exist or occur. For instance, if the entity granting the future guarantee were insolvent at the time of the grant and if such grant was made within 90 days, or in certain circumstances, a longer period, before that entity commenced a bankruptcy proceeding, and the granting of the future guarantee enabled the noteholders to receive more than they would than if the guarantor were liquidated under Chapter 7 of the United States Bankruptcy Code, then such guarantee could be avoided as a preferential transfer.

***We may not be able to fulfill our repurchase obligations with respect to the notes upon a change of control or an asset sale.***

If we experience certain change of control events, we are required by the indenture governing the notes to offer to repurchase all outstanding notes at a repurchase price equal to 101% of the principal amount of notes repurchased, plus accrued and unpaid interest and special interest, if any, to the applicable repurchase date. In addition, under certain circumstances, if we sell assets and fail to apply the net proceeds therefrom as provided in the indenture, we must offer to repurchase the notes at a repurchase price equal to 100% of the principal amount of the notes repurchased, plus accrued and unpaid interest and special interest, if any, to the applicable repurchase date. If a change of control

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event or an asset sale were to occur, we cannot assure you that we would have sufficient funds to repay the notes and all other indebtedness that we would be required to offer to purchase or that would become immediately due and payable as a result of such change of control event or asset sale. We may require additional financing from third parties to fund any such repurchases, and we cannot assure you that we would be able to obtain additional financing on satisfactory terms or at all. Our failure to repay noteholders who tender notes for repurchase following a change of control event or asset sale could result in an event of default under the indenture governing the notes. Any future indebtedness to which we become a party may also prohibit us from purchasing notes. If a change of control event or an asset sale occurs at a time when we are prohibited from purchasing notes, we may have to either seek the consent of the applicable lenders to the purchase of notes or attempt to refinance the borrowings that contain such prohibition. Our failure to obtain such a consent or to refinance such borrowings may preclude us from purchasing tendered notes and trigger an event of default under the indenture governing the notes, which may, in turn, constitute a default under other indebtedness. Finally, the events that would constitute a change of control under the indenture may also result in an event of default under our future secured credit facilities, in which case we could be required to repay our secured indebtedness before we repurchase any of the notes.

***Unrestricted subsidiaries generally will not be subject to any of the covenants in the indenture, and we may not be able to rely on the cash flow or assets of those unrestricted subsidiaries to pay our indebtedness.***

Unrestricted subsidiaries will generally not be subject to the covenants under the indenture governing the notes, and their assets will not be available as security for the notes. Unrestricted subsidiaries may enter into financing arrangements that limit their ability to make loans or other payments to fund payments in respect of the notes. Accordingly, we may not be able to rely on the cash flow or assets of unrestricted subsidiaries to pay any of our indebtedness, including the notes.

***You may be unable to enforce judgments obtained in United States Courts against MagnaChip Semiconductor S.A. or our subsidiary guarantors organized in jurisdictions other than the United States.***

MagnaChip Semiconductor S.A. and most of the guarantors are organized or incorporated outside of the United States and most of the assets of these companies are located outside of the United States. Because most of our assets are located outside of the United States, any judgment obtained in the United States against these companies may not be collectible in the United States. In addition, many of our executive officers and one of our directors are non-residents of the United States and it may be difficult to enforce civil liabilities in United States courts against these non-resident officers and director.

## **Risks Related to Our Business**

***We have a history of losses and may not achieve or sustain profitability in the future.***

Since we began operations as a separate entity in 2004, we have not generated a profit for a full fiscal year and have generated significant net losses. As of October 25, 2009, prior to our emergence from reorganization proceedings, we had an accumulated deficit of \$964.8 million and negative unitholders' equity. We may increase spending and we currently expect to incur higher expenses in each of the next several quarters to support increased research and development and sales and marketing efforts. These expenditures may not result in increased revenue or an increase in the number of customers immediately or at all. Because many of our expenses are fixed in the short term, or are incurred in advance of anticipated sales, we may not be able to decrease our expenses in a timely manner to offset any shortfall of sales.

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***We recently emerged from Chapter 11 reorganization proceedings; because our consolidated financial statements reflect fresh-start accounting adjustments, our future consolidated financial statements will not be comparable in many respects to our financial information from prior periods.***

On June 12, 2009, we filed a voluntary petition for relief under Chapter 11 of the United States Bankruptcy Code in order to obtain relief from our debt, which was \$845 million as of December 31, 2008. Our plan of reorganization became effective on November 9, 2009. In connection with our emergence from the reorganization proceedings, we implemented fresh-start accounting in accordance with ASC 852 effective from October 25, 2009, which had a material effect on our consolidated financial statements. Thus, our future consolidated financial statements will not be comparable in many respects to our consolidated financial statements for periods prior to our adoption of fresh-start accounting and prior to accounting for the effects of the reorganization proceedings. Our past financial difficulties and bankruptcy filing may have harmed, and may continue to have a negative effect on, our relationships with investors, customers and suppliers.

***We operate in the highly cyclical semiconductor industry, which is subject to significant downturns that may negatively impact our results of operations.***

The semiconductor industry is highly cyclical and is characterized by constant and rapid technological change and price erosion, evolving technical standards, short product life cycles (for semiconductors and for the end-user products in which they are used) and wide fluctuations in product supply and demand. From time to time, these and other factors, together with changes in general economic conditions, cause significant upturns and downturns in the industry in general and in our business in particular. Periods of industry downturns, including the recent economic downturn, have been characterized by diminished demand for end-user products, high inventory levels, underutilization of manufacturing capacity, changes in revenue mix and accelerated erosion of average selling prices. We have experienced these conditions in our business in the past and may experience renewed, and possibly more severe and prolonged, downturns in the future as a result of such cyclical changes. This may reduce our results of operations.

We base our planned operating expenses in part on our expectations of future revenue, and a significant portion of our expenses is relatively fixed in the short term. If revenue for a particular quarter is lower than we expect, we likely will be unable to proportionately reduce our operating expenses for that quarter, which would harm our operating results for that quarter.

***If we fail to develop new products and process technologies or enhance our existing products and services in order to react to rapid technological change and market demands, our business will suffer.***

Our industry is subject to constant and rapid technological change and product obsolescence as customers and competitors create new and innovative products and technologies. Products or technologies developed by other companies may render our products or technologies obsolete or noncompetitive, and we may not be able to access advanced process technologies, including smaller geometries, or to license or otherwise obtain essential intellectual property required by our customers.

We must develop new products and services and enhance our existing products and services to meet rapidly evolving customer requirements. We design products for customers who continually require higher performance and functionality at lower costs. We must, therefore, continue to enhance the performance and functionality of our products. The development process for these advancements is lengthy and requires us to accurately anticipate technological changes and market trends. Developing and enhancing these products is uncertain and can be time-consuming, costly and



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complex. If we do not continue to develop and maintain process technologies that are in demand by our semiconductor manufacturing services customers, we may be unable to maintain existing customers or attract new customers.

Customer and market requirements can change during the development process. There is a risk that these developments and enhancements will be late, fail to meet customer or market specifications or not be competitive with products or services from our competitors that offer comparable or superior performance and functionality. Any new products, such as our new line of power management solutions, which we began marketing in 2008, or product or service enhancements, may not be accepted in new or existing markets. Our business will suffer if we fail to develop and introduce new products and services or product and service enhancements on a timely and cost-effective basis.

***We manufacture our products based on our estimates of customer demand, and if our estimates are incorrect our financial results could be negatively impacted.***

We make significant decisions, including determining the levels of business that we will seek and accept, production schedules, component procurement commitments, personnel needs and other resource requirements based on our estimates of customer demand and expected demand for and success of their products. The short-term nature of commitments by many of our customers and the possibility of rapid changes in demand for their products reduces our ability to estimate accurately future customer demand for our products. On occasion, customers may require rapid increases in supply, which can challenge our production resources and reduce margins. We may not have sufficient capacity at any given time to meet our customers' increased demand for our products. Conversely, downturns in the semiconductor industry have caused and may in the future cause our customers to reduce significantly the amount of products they order from us. Because many of our costs and operating expenses are relatively fixed, a reduction in customer demand would decrease our results of operations, including our gross profit.

***Our customers may cancel their orders, reduce quantities or delay production, which would adversely affect our margins and results of operations.***

We generally do not obtain firm, long-term purchase commitments from our customers. Customers may cancel their orders, reduce quantities or delay production for a number of reasons. Cancellations, reductions or delays by a significant customer or by a group of customers, which we have experienced as a result of periodic downturns in the semiconductor industry or failure to achieve design wins, have affected and may continue to affect our results of operations adversely. These risks are exacerbated because many of our products are customized, which hampers our ability to sell excess inventory to the general market. We may incur charges resulting from the write-off of obsolete inventory. In addition, while we do not obtain long-term purchase commitments, we generally agree to the pricing of a particular product over a set period of time. If we underestimate our costs when determining pricing, our margins and results of operations would be adversely affected.

***We depend on high utilization of our manufacturing capacity, a reduction of which could have a material adverse effect on our business, financial condition and the results of our operations.***

An important factor in our success is the extent to which we are able to utilize the available capacity in our fabrication facilities. As many of our costs are fixed, a reduction in capacity utilization, as well as changes in other factors, such as reduced yield or unfavorable product mix, could reduce our profit margins and adversely affect our operating results. A number of factors and circumstances may reduce utilization rates, including periods of industry overcapacity, low levels of customer orders, operating inefficiencies, mechanical failures and disruption of operations due to expansion or relocation of operations, power interruptions and fire, flood or other natural disasters or calamities. The potential delays and costs resulting from these steps could have a material adverse effect on our business, financial condition and results of operations.

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*A significant portion of our sales comes from a relatively limited number of customers, the loss of which would adversely affect our financial results.*

Historically, we have relied on a limited number of customers for a substantial portion of our total revenue. If we were to lose key customers or if customers cease to place orders for our high-volume products or services, our financial results would be adversely affected. Net sales to our ten largest customers represented 63%, 66%, 69% and 63% of our net sales for the year ended December 31, 2010, the two-month period ended December 31, 2009, the ten-month period ended October 25, 2009 and the year ended December 31, 2008, respectively. LG Display represented 16% and 26% of our net sales and a substantial portion of the net sales generated by our top ten customers for the year ended December 31, 2010 and the combined twelve-month period ended December 31, 2009. Significant reductions in sales to any of these customers, especially our few largest customers, the loss of other major customers or a general curtailment in orders for our high-volume products or services within a short period of time would adversely affect our business.

*The average selling prices of our semiconductor products have at times declined rapidly and will likely do so in the future, which could harm our revenue and gross profit.*

The semiconductor products we develop and sell are subject to rapid declines in average selling prices. From time to time, we have had to reduce our prices significantly to meet customer requirements, and we may be required to reduce our prices in the future. This would cause our gross profit to decrease. Our financial results will suffer if we are unable to offset any reductions in our average selling prices by increasing our sales volumes, reducing our costs or developing new or enhanced products on a timely basis with higher selling prices or gross profit.

*Our industry is highly competitive and our ability to compete could be negatively impacted by a variety of factors.*

The semiconductor industry is highly competitive and includes hundreds of companies, a number of which have achieved substantial market share both within our product categories and end markets. Current and prospective customers for our products and services evaluate our capabilities against the merits of our competitors. Some of our competitors are well established as independent companies and have substantially greater market share and manufacturing, financial, research and development and marketing resources than we do. We also compete with emerging companies that are attempting to sell their products in certain of our end markets and with the internal semiconductor design and manufacturing capabilities of many of our significant customers. We expect to experience continuing competitive pressures in our markets from existing competitors and new entrants.

Any consolidation among our competitors could enhance their product offerings and financial resources, further enhancing their competitive position. Our ability to compete will depend on a number of factors, including the following:

our ability to offer cost-effective and high quality products and services on a timely basis using our technologies;

our ability to accurately identify and respond to emerging technological trends and demand for product features and performance characteristics;

our ability to continue to rapidly introduce new products that are accepted by the market;

our ability to adopt or adapt to emerging industry standards;

the number and nature of our competitors and competitiveness of their products and services in a given market;

entrance of new competitors into our markets;



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our ability to enter the highly competitive power management market; and

our ability to continue to offer in demand semiconductor manufacturing services at competitive prices.

Many of these factors are outside of our control. In the future, our competitors may replace us as a supplier to our existing or potential customers, and our customers may satisfy more of their requirements internally. As a result, we may experience declining revenues and results of operations.

### ***Changes in demand for consumer electronics in our end markets can impact our results of operations.***

Demand for our products will depend in part on the demand for various consumer electronics products, in particular, mobile phones and multimedia devices, digital televisions, flat panel displays, mobile PCs and digital cameras, which in turn depends on general economic conditions and other factors beyond our control. If our customers fail to introduce new products that employ our products or component parts, demand for our products will suffer. To the extent that we cannot offset periods of reduced demand that may occur in these markets through greater penetration of these markets or reduction in our production and costs, our sales and gross profit may decline, which would negatively impact our business, financial condition and results of operations.

### ***If we fail to achieve design wins for our semiconductor products, we may lose the opportunity for sales to customers for a significant period of time and be unable to recoup our investments in our products.***

We expend considerable resources on winning competitive selection processes, known as design wins, to develop semiconductor products for use in our customers' products. These selection processes are typically lengthy and can require us to incur significant design and development expenditures. We may not win the competitive selection process and may never generate any revenue despite incurring significant design and development expenditures. Once a customer designs a semiconductor into a product, that customer is likely to continue to use the same semiconductor or enhanced versions of that semiconductor from the same supplier across a number of similar and successor products for a lengthy period of time due to the significant costs associated with qualifying a new supplier and potentially redesigning the product to incorporate a different semiconductor. If we fail to achieve an initial design win in a customer's qualification process, we may lose the opportunity for significant sales to that customer for a number of products and for a lengthy period of time. This may cause us to be unable to recoup our investments in our semiconductor products, which would harm our business.

### ***We have lengthy and expensive design-to-mass production and manufacturing process development cycles that may cause us to incur significant expenses without realizing meaningful sales, the occurrence of which would harm our business.***

The cycle time from the design stage to mass production for some of our products is long and requires the investment of significant resources with many potential customers without any guarantee of sales. Our design-to-mass production cycle typically begins with a three-to-twelve month semiconductor development stage and test period followed by a three-to-twelve month end-product qualification period by our customers. The fairly lengthy front end of our sales cycle creates a risk that we may incur significant expenses but may be unable to realize meaningful sales. Moreover, prior to mass production, customers may decide to cancel their products or change production specifications, resulting in sudden changes in our product specifications, increasing our production time and costs. Failure to meet such specifications may also delay the launch of our products or result in lost sales.

In addition, we collaborate and jointly develop certain process technologies and manufacturing process flows custom to certain of our semiconductor manufacturing services customers. To the extent

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that our semiconductor manufacturing services customers fail to achieve market acceptance for their products, we may be unable to recoup our engineering resources commitment and our investment in process technology development, which would harm our business.

***Research and development investments may not yield profitable and commercially viable product and service offerings and thus will not necessarily result in increases in revenues for us.***

We invest significant resources in our research and development. Our research and development efforts, however, may not yield commercially viable products or enhance our semiconductor manufacturing services offerings. During each stage of research and development there is a substantial risk that we will have to abandon a potential product or service offering that is no longer marketable and in which we have invested significant resources. In the event we are able to develop viable new products or service offerings, a significant amount of time will have elapsed between our investment in the necessary research and development effort and the receipt of any related revenues.

***We face numerous challenges relating to executing our growth strategy, and if we are unable to execute our growth strategy effectively, our business and financial results could be materially and adversely affected.***

Our growth strategy is to leverage our advanced analog and mixed-signal technology platform, continue to innovate and deliver new products and services, increase business with existing customers, broaden our customer base, aggressively grow our power business, drive execution excellence and focus on specialty process technologies. As part of our growth strategy, we began marketing a new line of power management semiconductor products in 2008 and expect to introduce other new products and services in the future. If we are unable to execute our growth strategy effectively, we may not be able to take advantage of market opportunities, execute our business plan or respond to competitive pressures. Moreover, if our allocation of resources does not correspond with future demand for particular products, we could miss market opportunities and our business and financial results could be materially and adversely affected.

***We are subject to risks associated with currency fluctuations, and changes in the exchange rates of applicable currencies could impact our results of operations.***

Historically, a portion of our revenues and greater than the majority of our operating expenses and costs of sales have been denominated in non-U.S. currencies, principally the Korean won, and we expect that this will remain true in the future. Because we report our results of operations in U.S. dollars, changes in the exchange rate between the Korean won and the U.S. dollar could materially impact our reported results of operations and distort period to period comparisons. In particular, because of the difference in the amount of our consolidated revenues and expenses that are in U.S. dollars relative to Korean won, a depreciation in the U.S. dollar relative to the Korean won could result in a material increase in reported costs relative to revenues, and therefore could cause our profit margins and operating income to appear to decline materially, particularly relative to prior periods. The converse is true if the U.S. dollar were to appreciate relative to the Korean won. Fluctuations in foreign currency exchange rates also impact the reporting of our receivables and payables in non-U.S. currencies. Foreign currency fluctuations had a materially beneficial impact on our results of operations in the fiscal year ended December 31, 2008 relative to the fiscal year ended December 31, 2007, as well as in the combined twelve-month period ended December 31, 2009 relative to the fiscal year ended December 31, 2008. However, foreign currency fluctuation had an unfavorable impact on our reported profit margins and operating income from continuing operations for the year ended December 31, 2010 compared to the combined twelve-month period ended December 31, 2009. As a result of foreign currency fluctuations, it could be more difficult to detect underlying trends in our

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business and results of operations. In addition, to the extent that fluctuations in currency exchange rates cause our results of operations to differ from our expectations or the expectations of our investors, the trading price of our stock or the price of our outstanding notes could be adversely affected.

From time to time, we may engage in exchange rate hedging activities in an effort to mitigate the impact of exchange rate fluctuations. For example, in January 2010 and May 2010 our Korean subsidiary entered into foreign currency option and forward contracts in order to mitigate a portion of the impact of U.S. dollar-Korean won exchange rate fluctuations on our operating results. The January 2010 option and forward contracts require us to sell specified notional amounts in U.S. dollars and provide us the option to sell specified notional amounts in U.S. dollars during each month of 2010 commencing February 2010 to our counterparty, in each case, in exchange for Korean won at specified exchange rates. The May 2010 option and forward contracts require us to sell specified notional amounts in U.S. dollars and provide us the option to sell specified notional amounts in U.S. dollars during the months of January 2011 through June 2011 to our counterparty, in each case, in exchange for Korean won at specified fixed exchange rates. In August 2010 our Korean subsidiary additionally entered into zero cost collar contracts for the same purpose as the above hedge contracts. The August 2010 zero cost collar contracts require us to sell specified notional amounts in U.S. dollars and provide us the option to sell specified notional amounts in U.S. dollars during the months of July 2011 through December 2011 to our counterparty, in each case, in exchange for Korean won at specified fixed exchange rates. Obligations under these foreign currency option, forward and zero cost collar contracts must be cash collateralized if our exposure exceeds certain specified thresholds. These option, forward and zero cost collar contracts may be terminated by the counterparty in a number of circumstances, including if our long-term debt rating falls below B-/B3 or if our total cash and cash equivalents is less than \$30 million at the end of a fiscal quarter. We cannot assure you that any hedging technique we implement will be effective. If our hedging activities are not effective, changes in currency exchange rates may have a more significant impact on our results of operations. See Management's Discussion and Analysis of Financial Condition and Results of Operations Factors Affecting our Results of Operations.

***The global recession and related financial crisis negatively affected our business. Poor economic conditions may negatively affect our future business, results of operations and financial condition.***

The global recession and related financial crisis led to slower economic activity, increased unemployment, concerns about inflation and energy costs, decreased business and consumer confidence, reduced corporate profits and capital spending, adverse business conditions and lower levels of liquidity in many financial markets. Consumers and businesses deferred purchases in response to tighter credit and negative financial news, which has in turn negatively affected product demand and other related matters. The global recession led to reduced customer spending in the semiconductor market and in our target markets, made it difficult for our customers, our vendors and us to accurately forecast and plan future business activities, and caused U.S. and foreign businesses to slow spending on our products. Although recently there have been indications of improved economic conditions generally and in the semiconductor industry specifically, we cannot assure you of the extent to which such conditions will continue to improve or whether the improvement will be sustainable. If the global economic recovery is not sustained or the global economy experiences another recession, such adverse economic conditions could lead to the insolvency of key suppliers resulting in product delays, limit the ability of customers to obtain credit to finance purchases of our products, lead to customer insolvencies, and also result in counterparty failures that may negatively impact our treasury operations. As a result, our business, financial condition and result of operations could be materially adversely affected in future periods as a result of economic downturns.

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***The loss of our key employees would materially adversely affect our business, and we may not be able to attract or retain the technical or management employees necessary to compete in our industry.***

Our key executives have substantial experience and have made significant contributions to our business, and our continued success is dependent upon the retention of our key management executives, including our Chief Executive Officer and Chairman, Sang Park. The loss of such key personnel would have a material adverse effect on our business. In addition, our future success depends on our ability to attract and retain skilled technical and managerial personnel. We do not know whether we will be able to retain all of these employees as we continue to pursue our business strategy. The loss of the services of key employees, especially our key design and technical personnel, or our inability to retain, attract and motivate qualified design and technical personnel could have a material adverse effect on our business, financial condition and results of operations. This could hinder our research and product development programs or otherwise have a material adverse effect on our business.

***If we encounter future labor problems, we may fail to deliver our products and services in a timely manner, which could adversely affect our revenues and profitability.***

As of December 31, 2010, 2,208 employees, or approximately 66.2% of our employees, were represented by the MagnaChip Semiconductor Labor Union, which is a member of the Federation of Korean Metal Workers Trade Unions. We can offer no assurance that issues with the labor union and other employees will be resolved favorably for us in the future, that we will not experience work stoppages or other labor problems in future years or that we will not incur significant expenses related to such issues.

***We may incur costs to engage in future business combinations or strategic investments, and we may not realize the anticipated benefits of those transactions.***

As part of our business strategy, we may seek to enter into business combinations, investments, joint ventures and other strategic alliances with other companies in order to maintain and grow revenue and market presence as well as to provide us with access to technology, products and services. Any such transaction would be accompanied by risks that may harm our business, such as difficulties in assimilating the operations, personnel and products of an acquired business or in realizing the projected benefits, disruption of our ongoing business, potential increases in our indebtedness and contingent liabilities and charges if the acquired company or assets are later determined to be worth less than the amount paid for them in an earlier original acquisition. In addition, our indebtedness may restrict us from making acquisitions that we may otherwise wish to pursue.

***The failure to achieve acceptable manufacturing yields could adversely affect our business.***

The manufacture of semiconductors involves highly complex processes that require precision, a highly regulated and sterile environment and specialized equipment. Defects or other difficulties in the manufacturing process can prevent us from achieving acceptable yields in the manufacture of our products or those of our semiconductor manufacturing services customers, which could lead to higher costs, a loss of customers or delay in market acceptance of our products. Slight impurities or defects in the photomasks used to print circuits on a wafer or other factors can cause significant difficulties, particularly in connection with the production of a new product, the adoption of a new manufacturing process or any expansion of our manufacturing capacity and related transitions. We may also experience manufacturing problems in achieving acceptable yields as a result of, among other things, transferring production to other facilities, upgrading or expanding existing facilities or changing our process technologies. Yields below our target levels can negatively impact our gross profit and may cause us to eliminate underperforming products.

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***We rely on a number of independent subcontractors and the failure of any of these independent subcontractors to perform as required could adversely affect our operating results.***

A substantial portion of our net sales are derived from semiconductor devices assembled in packages or on film. The packaging and testing of semiconductors require technical skill and specialized equipment. For the portion of packaging and testing that we outsource, we use subcontractors located in Korea, China, Taiwan, Malaysia and Thailand. We rely on these subcontractors to package and test our devices with acceptable quality and yield levels. We could be adversely affected by political disorders, labor disruptions, and natural disasters where our subcontractors are located. If our semiconductor packagers and test service providers experience problems in packaging and testing our semiconductor devices, experience prolonged quality or yield problems or decrease the capacity available to us, our operating results could be adversely affected.

***We depend on successful parts and materials procurement for our manufacturing processes, and a shortage or increase in the price of these materials could interrupt our operations and result in a decline of revenues and results of operations.***

We procure materials and electronic and mechanical components from international sources and original equipment manufacturers. We use a wide range of parts and materials in the production of our semiconductors, including silicon, processing chemicals, processing gases, precious metals and electronic and mechanical components, some of which, such as silicon wafers, are specialized raw materials that are generally only available from a limited number of suppliers. We do not have long-term agreements providing for all of these materials, thus, if demand increases or supply decreases, the costs of our raw materials could significantly increase. For example, worldwide supplies of silicon wafers, an important raw material for the semiconductors we manufacture, were constrained in recent years due to an increased demand for silicon. Silicon is also a key raw material for solar cells, the demand for which has increased in recent years. Although supplies of silicon have recently improved due to the entrance of additional suppliers and capacity expansion by existing suppliers, we cannot assure you that such supply increases will match demand increases. If we cannot obtain adequate materials in a timely manner or on favorable terms for the manufacture of our products, revenues and results of operations will decline.

***We face warranty claims, product return, litigation and liability risks and the risk of negative publicity if our products fail.***

Our semiconductors are incorporated into a number of end products, and our business is exposed to product return, warranty and product liability risk and the risk of negative publicity if our products fail. Although we maintain insurance for product liability claims, the amount and scope of our insurance may not be adequate to cover a product liability claim that is asserted against us. In addition, product liability insurance could become more expensive and difficult to maintain and, in the future, may not be available on commercially reasonable terms, or at all.

In addition, we are exposed to the product liability risk and the risk of negative publicity affecting our customers. Our sales may decline if any of our customers are sued on a product liability claim. We also may suffer a decline in sales from the negative publicity associated with such a lawsuit or with adverse public perceptions in general regarding our customers' products. Further, if our products are delivered with impurities or defects, we could incur additional development, repair or replacement costs, and our credibility and the market's acceptance of our products could be harmed.

***We could suffer adverse tax and other financial consequences as a result of changes in, or differences in the interpretation of, applicable tax laws.***

Our company organizational structure was created in part based on certain interpretations and conclusions regarding various tax laws, including withholding tax, and other tax laws of applicable



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jurisdictions. Our Korean subsidiary, MagnaChip Semiconductor, Ltd., or MagnaChip Korea, was granted a limited tax holiday under Korean law in October 2004. This grant provided for certain tax exemptions for corporate taxes and withholding taxes until December 31, 2008, and for acquisition taxes, property and land use taxes and certain other taxes until December 31, 2013. Our interpretations and conclusions regarding tax laws, however, are not binding on any taxing authority and, if these interpretations and conclusions are incorrect, if our business were to be operated in a way that rendered us ineligible for tax exemptions or caused us to become subject to incremental tax, or if the authorities were to change, modify, or have a different interpretation of the relevant tax laws, we could suffer adverse tax and other financial consequences and the anticipated benefits of our organizational structure could be materially impaired.

***Our ability to compete successfully and achieve future growth will depend, in part, on our ability to protect our proprietary technology and know-how, as well as our ability to operate without infringing the proprietary rights of others.***

We seek to protect our proprietary technologies and know-how through the use of patents, trade secrets, confidentiality agreements and other security measures. The process of seeking patent protection takes a long time and is expensive. There can be no assurance that patents will issue from pending or future applications or that, if patents issue, they will not be challenged, invalidated or circumvented, or that the rights granted under the patents will provide us with meaningful protection or any commercial advantage. Some of our technologies are not covered by any patent or patent application. The confidentiality agreements on which we rely to protect these technologies may be breached and may not be adequate to protect our proprietary technologies. We cannot assure you that other countries in which we market our services will protect our intellectual property rights to the same extent as the United States. In particular, the validity, enforceability and scope of protection of intellectual property in China, where we derive a significant portion of our net sales, and certain other countries where we derive net sales, are uncertain and still evolving and historically have not protected and may not protect in the future, intellectual property rights to the same extent as do the laws and enforcement procedures in the United States.

Our ability to compete successfully depends on our ability to operate without infringing the proprietary rights of others. We have no means of knowing what patent applications have been filed in the United States until they are published. In addition, the semiconductor industry is characterized by frequent litigation regarding patent and other intellectual property rights. We may need to file lawsuits to enforce our patents or intellectual property rights, and we may need to defend against claimed infringement of the rights of others. Any litigation could result in substantial costs to us and divert our resources. Despite our efforts in bringing or defending lawsuits, we may not be able to prevent third parties from infringing upon or misappropriating our intellectual property. In the event of an adverse outcome in any such litigation, we may be required to:

pay substantial damages or indemnify customers or licensees for damages they may suffer if the products they purchase from us or the technology they license from us violate the intellectual property rights of others;

stop our manufacture, use, sale or importation of infringing products; expend significant resources to develop or acquire non-infringing technologies;

discontinue processes; or

obtain licenses to the intellectual property we are found to have infringed.

There can be no assurance that we would be successful in such development or acquisition or that such licenses would be available under reasonable terms, or at all. The termination of key third

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party licenses relating to the use of intellectual property in our products and our design processes, such as our agreements with Silicon Works Co., Ltd. and ARM Limited, would materially and adversely affect our business.

Our competitors may develop, patent or gain access to know-how and technology similar to our own. In addition, many of our patents are subject to cross licenses, several of which are with our competitors. The noncompetition arrangement agreed to by Hynix in connection with the Original Acquisition expired on October 1, 2007. Under that arrangement, Hynix retained a perpetual license to use the intellectual property that we acquired from Hynix in the Original Acquisition. Since noncompetition restrictions have expired, Hynix and its subsidiaries are free to develop products that may incorporate or embody intellectual property developed by us prior to October 2004.

***Our expenses could increase if Hynix were unwilling or unable to provide certain services related to our shared facilities with Hynix, and if Hynix were to become insolvent, we could lose certain of our leases.***

We are party to a land lease and easement agreement with Hynix pursuant to which we lease the land for our facilities in Cheongju, Korea. If this agreement were terminated for any reason, including the insolvency of Hynix, we would have to renegotiate new lease terms with Hynix or the new owner of the land. We cannot assure you that we could negotiate new lease terms on favorable terms or at all. Because we share certain facilities with Hynix, several services that are essential to our business are provided to us by or through Hynix under our general service supply agreement with Hynix. These services include electricity, bulk gases and de-ionized water, campus facilities and housing, wastewater and sewage management, environmental safety and certain utilities and infrastructure support services. If any of our agreements with Hynix were terminated or if Hynix were unwilling or unable to fulfill its obligations to us under the terms of these agreements, we would have to procure these services on our own and as a result may experience an increase in our expenses.

***We are subject to many environmental laws and regulations that could affect our operations or result in significant expenses.***

We are subject to requirements of environmental, health and safety laws and regulations in each of the jurisdictions in which we operate, governing air emissions, wastewater discharges, the generation, use, handling, storage and disposal of, and exposure to, hazardous substances (including asbestos) and wastes, soil and groundwater contamination and employee health and safety. These laws and regulations are complex, change frequently and have tended to become more stringent over time. There can be no assurance that we have been, or will be, in compliance with all such laws and regulations or that we will not incur material costs or liabilities in connection with these laws and regulations in the future. The adoption of new environmental, health and safety laws, the failure to comply with new or existing laws, or issues relating to hazardous substances could subject us to material liability (including substantial fines or penalties), impose the need for additional capital equipment or other process requirements upon us, curtail our operations or restrict our ability to expand operations.

***Our Korean subsidiary has been designated as a regulated business under Korean environmental law, and such designation could have an adverse effect on our financial position and results of operations.***

In April 2010, the Korean government's Enforcement Decree to the Framework Act on Low Carbon Green Growth, or the Enforcement Decree, became effective. Businesses that exceed 25,000 tons of greenhouse gas emissions and 100 terajoules of energy consumption for the prior three years will be subject to regulation and will be required to submit plans to reduce greenhouse emissions and energy consumption as well as performance reports and will be subject to government requirements to

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take further action. Our Korean subsidiary meets the thresholds under the Enforcement Decree and was designated as a regulated business on September 28, 2010. Our Korean subsidiary will have until September 2011 and December 2011 to cooperate and negotiate with Korean governmental authorities to set reduction targets and draft an implementation plan, respectively. If the ultimate implementation plan agreed upon with Korean governmental authorities requires us to reduce our emissions or energy consumption, we could be subject to additional and potentially costly compliance or remediation expenses, including potentially the installation of equipment and changes in the type of materials we use in manufacturing, that could adversely affect our financial position and results of operations.

***We will likely need additional capital in the future, and such capital may not be available on acceptable terms or at all, which would have a material adverse effect on our business, financial condition and results of operations.***

We will likely require more capital in the future from equity or debt financings to fund operating expenses, such as research and development costs, finance investments in equipment and infrastructure, acquire complementary businesses and technologies, and respond to competitive pressures and potential strategic opportunities. If we raise additional funds through further issuances of equity or other securities convertible into equity, our existing stockholders could suffer significant dilution, and any new shares we issue could have rights, preferences or privileges senior to those of the holders of our common stock, including the shares of common stock sold in the MagnaChip Corporation IPO. In addition, additional capital may not be available when needed or, if available, may not be available on favorable terms. In addition, our indebtedness limits our ability to incur additional indebtedness under certain circumstances. If we are unable to obtain capital on favorable terms, or if we are unable to obtain capital at all, we may have to reduce our operations or forego opportunities, and this may have a material adverse effect on our business, financial condition and results of operations.

***Our business depends on international customers, suppliers and operations in Asia, and as a result we are subject to regulatory, operational, financial and political risks, which could adversely affect our financial results.***

We rely on, and expect to continue to rely on, suppliers, subcontractors and operations located primarily in Asia. As a result, we face risks inherent in international operations, such as unexpected changes in regulatory requirements, tariffs and other market barriers, political, social and economic instability, adverse tax consequences, war, civil disturbances and acts of terrorism, difficulties in accounts receivable collection, extended payment terms and differing labor standards, enforcement of contractual obligations and protection of intellectual property. These risks may lead to increased costs or decreased revenue growth, or both. Although we do not derive any revenue from, nor sell any products in, North Korea, any future increase in tensions between South Korea and North Korea that may occur, such as an outbreak of military hostilities, would adversely affect our business, financial condition and results of operations.

***You may not be able to bring an action or enforce any judgment obtained in United States courts, or bring an action in any other jurisdiction, against us or our subsidiaries or our directors, officers or independent auditors that are organized or residing in jurisdictions other than the United States.***

Most of our subsidiaries are organized or incorporated outside of the United States and some of our directors and executive officers as well as our independent auditors are organized or reside outside of the United States. Most of our and our subsidiaries' assets are located outside of the United States and in particular, in Korea. Accordingly, any judgment obtained in the United States against us or our subsidiaries may not be collectible in the United States. As a result, it may not be possible for you to

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effect service of process within the United States upon these persons or to enforce against them or us court judgments obtained in the United States that are predicated upon the civil liability provisions of the federal securities laws of the United States or of the securities laws of any state of the United States. In particular, there is doubt as to the enforceability in Korea or any other jurisdictions outside the United States, either in original actions or in actions for enforcement of judgments of United States courts, of civil liabilities predicated on the federal securities laws of the United States or the securities laws of any state of the United States.

***Our level of indebtedness is substantial, and we may not be able to generate sufficient cash to service all of our indebtedness and may be forced to take other actions to satisfy our obligations under our indebtedness, which may not be successful. A decline in the ratings of our existing or future indebtedness may make the terms of any new indebtedness we choose to incur more costly.***

As of December 31, 2010, our total indebtedness was \$246.9 million. Our substantial debt could have important consequences, including:

increasing our vulnerability to general economic and industry conditions;

requiring a substantial portion of our cash flow from operations to be dedicated to the payment of principal and interest on our indebtedness, therefore reducing our ability to use our cash flow to fund our operations, capital expenditures and future business opportunities;

limiting our ability to obtain additional financing for working capital, capital expenditures, debt service requirements, acquisitions and general corporate or other purposes; and

limiting our ability to adjust to changing market conditions and placing us at a competitive disadvantage compared to our competitors who have less debt.

Our ability to make scheduled payments on or to refinance our debt obligations depends on our financial condition and operating performance, which is subject to prevailing economic and competitive conditions and to certain financial, business and other factors beyond our control. We cannot assure you that we will generate a level of cash flows from operating activities sufficient to permit us to pay the principal, premium, if any, and interest on our indebtedness.

The credit ratings assigned to our debt reflect each rating agency's opinion of our ability to make payments on the debt obligations when such payments are due. The current rating of our senior notes is B2 by Moody's and B+ by Standard and Poors, both of which are below investment grade. A rating may be subject to revision or withdrawal at any time by the assigning rating agency. We may experience downgrades in our debt ratings in the future. Any lowering of our debt ratings would adversely impact our ability to raise additional debt financing and increase the cost of any such financing that is obtained. In the event any ratings downgrades are significant, we may choose not to incur new debt or refinance existing debt if we are unable to incur or refinance such debt at favorable interest rates or on favorable terms.

If our cash flows and capital resources are insufficient to fund our debt service obligations or if we are unable to refinance existing indebtedness on favorable terms, we may be forced to reduce or delay capital expenditures, sell assets, seek additional capital or restructure or refinance our indebtedness. These alternative measures may not be successful and may not permit us to meet our scheduled debt service obligations. In the absence of such operating results and resources, we could face substantial liquidity problems and might be required to dispose of material assets or operations to meet our debt service and other obligations. The indentures governing our notes restrict our ability to dispose of assets and use the proceeds from the disposition. We may not be able to consummate those dispositions or be able to obtain the proceeds which we could realize from them and these proceeds may not be adequate to meet any debt service obligations then due.

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*We are a holding company and will depend on the business of our subsidiaries to satisfy our obligations under our outstanding notes and other obligations.*

Each of MagnaChip Semiconductor Corporation, MagnaChip Semiconductor S.A. and MagnaChip Semiconductor B.V. is a holding company with no independent operations of its own. Our subsidiaries, including our principal manufacturing subsidiary, MagnaChip Korea, own all of our operating businesses. Our subsidiaries will conduct substantially all of the operations necessary to fund payments on our outstanding notes, other debt and any other obligations. Our ability to make payments on the notes and our other obligations will depend on our subsidiaries' cash flow and their payment of funds to us. Our subsidiaries' ability to make payments to us will depend on:

their earnings;

covenants contained in our debt agreements (including the indenture governing the notes) and the debt agreements of our subsidiaries;

covenants contained in other agreements to which we or our subsidiaries are or may become subject;

business and tax considerations; and

applicable law, including any restrictions under Korean law that may be imposed on MagnaChip Korea that would restrict its ability to make payments on intercompany loans from MagnaChip Semiconductor B.V.

We cannot assure you that the operating results of our subsidiaries at any given time will be sufficient to make distributions or other payments to us or that any distributions or payments will be adequate to pay principal and interest, and any other payments, on our outstanding notes, other debt or any other obligations when due, and the failure to make such payments could have a material adverse effect on our business, financial condition and results of operations.

***Restrictions on MagnaChip Korea's ability to make payments on its intercompany loans from MagnaChip Semiconductor B.V., or on its ability to pay dividends in excess of statutory limitations, could hinder our ability to make payments on our 10.500% senior notes due 2018.***

We anticipate that payments under our 10.500% senior notes due 2018 will be funded in part by MagnaChip Korea's repayment of its existing loans from MagnaChip Semiconductor B.V., with MagnaChip Semiconductor B.V. using such repayments in turn to repay the loans owed to MagnaChip Semiconductor S.A. Under the Korean Foreign Exchange Transaction Act, the minister of the Ministry of Strategy and Finance is authorized to temporarily suspend payments in foreign currencies in the event of natural calamities, wars, conflicts of arms, grave and sudden changes in domestic or foreign economic conditions, or other similar situations. In addition, under the Korean Commercial Code, a Korean company is permitted to make a dividend payment in accordance with the provisions in its articles of incorporation out of retained earnings (as determined in accordance with the Korean Commercial Code and the generally accepted accounting principles in Korea), but no more than twice a year. If MagnaChip Korea is prevented from making payments under its intercompany loans due to restrictions on payments of foreign currency or if it has an insufficient amount of retained earnings under the Korean Commercial Code to make dividend payments to MagnaChip Semiconductor B.V., we may not have sufficient funds to make payments on the notes.

***The indenture governing the senior notes contains, and our future debt agreements will likely contain, covenants that significantly restrict our operations.***

The indenture governing our outstanding senior notes contains, and our future debt agreements will likely contain, numerous covenants imposing financial and operating restrictions on our business.

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These restrictions may affect our ability to operate our business, may limit our ability to take advantage of potential business opportunities as they arise and may adversely affect the conduct of our current business, including by restricting our ability to finance future operations and capital needs and by limiting our ability to engage in other business activities. These covenants will place restrictions on our ability and the ability of our operating subsidiaries to, among other things:

pay dividends, redeem shares or make other distributions with respect to equity interests, make payments with respect to subordinated indebtedness or other restricted payments;

incur debt or issue preferred stock;

create liens;

make certain investments;

consolidate, merge or dispose of all or substantially all of our assets, taken as a whole;

sell or otherwise transfer or dispose of assets, including equity interests of our subsidiaries;

enter into sale-leaseback transactions;

enter into transactions with our affiliates; and

designate our subsidiaries as unrestricted subsidiaries.

In addition, our future debt agreements will likely contain financial ratios and other financial conditions tests. Our ability to meet those financial ratios and tests could be affected by events beyond our control, and we cannot assure you that we will meet those ratios and tests. A breach of any of these covenants could result in a default under such debt agreements. Upon the occurrence of an event of default under such debt agreements, our lenders under such agreements could elect to declare all amounts outstanding under such debt agreements to be immediately due and payable and terminate all commitments to extend further credit.

***Investor confidence may be adversely impacted if we fail to achieve and maintain effective internal control over financial reporting or disclosure controls and procedures or are unable to comply with Section 404 of the Sarbanes-Oxley Act of 2002, and as a result, the value of our securities could decline.***

We will be subject to rules adopted by the Securities Exchange Commission, or SEC, pursuant to Section 404 of the Sarbanes-Oxley Act of 2002, or Sarbanes-Oxley Act, which requires us to include in our Annual Report on Form 10-K our management's report on, and assessment of the effectiveness of, our internal control over financial reporting. We may also in the future become subject to the requirement that our independent registered public accounting firm attest to and report on the effectiveness of our internal control over financial reporting.

In connection with audits of our consolidated financial statements for the ten-month period ended October 25, 2009 and two-month period ended December 31, 2009, our independent registered public accounting firm reported two control deficiencies which represented a material weakness in our internal control over financial reporting. The two control deficiencies which represented a material weakness were that we did not have a sufficient number of financial personnel with the requisite financial accounting experience and that our controls over non-routine transactions were not effective to ensure that accounting considerations are identified and appropriately recorded. Based upon the remediation actions taken by us, our management has concluded that these two control deficiencies no longer exist as of December 31, 2010.

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We cannot assure you that we will not discover additional material weaknesses in our internal control over financial reporting in the future. If we fail to maintain the adequacy of our internal control

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over financial reporting, there is a risk that we will have additional material weaknesses in the future. Moreover, effective internal controls are necessary for us to produce reliable financial reports and are important to helping prevent financial fraud. Any of these possible outcomes could result in an adverse reaction in the financial marketplace due to a loss of investor confidence in the reliability of our consolidated financial statements and could result in investigations or sanctions by the SEC, the New York Stock Exchange, or NYSE, or other regulatory authorities or in stockholder litigation. Any of these factors ultimately could harm our business and could negatively impact the market price of our securities. Ineffective control over financial reporting could also cause investors to lose confidence in our reported financial information, which could adversely affect the trading price of our common stock.

We are also required to periodically assess and report on the adequacy of our disclosure controls and procedures. Our disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed by the issuer in the reports that it files or submits under the Security and Exchange Act of 1934, as amended, is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, with the participation of our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. However, our management, including our principal executive officer and principal financial officer, does not expect that our disclosure controls and procedures will prevent all error and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected. See Management's Discussion and Analysis of Financial Condition and Results of Operations—Controls and Procedures.

***We may need to incur impairment and other restructuring charges, which could materially affect our results of operations and financial conditions.***

During industry downturns and for other reasons, we may need to record impairment or restructuring charges. From April 4, 2005 through December 31, 2010, we recognized aggregate restructuring and impairment charges of \$65.9 million, which consisted of \$60.2 million of impairment charges and \$5.6 million of restructuring charges. In the future, we may need to record additional impairment charges or to further restructure our business or incur additional restructuring charges, any of which could have a material adverse effect on our results of operations or financial condition.

***We are subject to litigation risks, which may be costly to defend and the outcome of which is uncertain.***

All industries, including the semiconductor industry, are subject to legal claims, with and without merit, that may be particularly costly and which may divert the attention of our management and our resources in general. We are involved in a variety of legal matters, most of which we consider routine matters that arise in the normal course of business. These routine matters typically fall into broad categories such as those involving customers, employment and labor and intellectual property. Even if the final outcome of these legal claims does not have a material adverse effect on our financial position, results of operations or cash flows, defense and settlement costs can be substantial. Due to the inherent uncertainty of the litigation process, the resolution of any particular legal claim or proceeding could have a material effect on our business, financial condition, results of operations or cash flows.



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**INDUSTRY AND MARKET DATA**

In this prospectus, we rely on and refer to information regarding the semiconductor market from iSuppli Corporation, or iSuppli, and Gartner, Inc., or Gartner. Market data attributed to iSuppli is from Display Driver ICs Q3 2010 Market Tracker and Power Management Q3 2010 Market Tracker and market data attributed to Gartner is from Semiconductor Forecast Worldwide: Forecast Database, 08 Dec 2010. Although we believe that this information is reliable, we have not independently verified it. We do not have any obligation to announce or otherwise make publicly available updates or revisions to forecasts contained in these documents. In addition, in many cases, we have made statements in this prospectus regarding our industry and our position in the industry based on our experience in the industry and our own investigation of market conditions.

**SPECIAL CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING STATEMENTS**

Information concerning us and this offering is subject to risks and uncertainties. Forward-looking statements give our current expectations and projections relating to our financial condition, results of operations, plans, objectives, future performance and business. These statements can be identified by the fact that they do not relate strictly to historical or current facts. These statements may include words such as anticipate, estimate, expect, project, intend, plan, believe and other words and terms of similar meaning in connection with any discussion of the timing, nature of future operating or financial performance or other events. All statements other than statements of historical facts included in this prospectus that address activities, events or developments that we expect, believe or anticipate will or may occur in the future are forward-looking statements.

These forward-looking statements are largely based on our expectations and beliefs concerning future events, which reflect estimates and assumptions made by our management. These estimates and assumptions reflect our best judgment based on currently known market conditions and other factors relating to our operations and business environment, all of which are difficult to predict and many of which are beyond our control. Although we believe our estimates and assumptions to be reasonable, they are inherently uncertain and involve a number of risks and uncertainties that are beyond our control. In addition, management's assumptions about future events may prove to be inaccurate. Management cautions all readers that the forward-looking statements contained in this prospectus are not guarantees of future performance, and we cannot assure any reader that those statements will be realized or the forward-looking events and circumstances will occur. Actual results may differ materially from those anticipated or implied in the forward-looking statements due to the factors listed in the Risk Factors, Management's Discussion and Analysis of Financial Condition and Results of Operations and Business sections and elsewhere in this prospectus.

All forward-looking statements speak only as of the date of this prospectus. We do not intend to publicly update or revise any forward-looking statements as a result of new information or future events or otherwise, except as required by law. These cautionary statements qualify all forward-looking statements attributable to us or persons acting on our behalf.

**Table of Contents****RATIO OF EARNINGS TO FIXED CHARGES**

The financial information provided in the following table should be read in conjunction with our consolidated financial statements and the related notes, appearing elsewhere in this prospectus. The following table sets forth our ratio of earnings to fixed charges for each of the periods indicated:

	Successor		Predecessor		
	Year Ended December 31, 2010	Two-Month Period Ended December 31, 2009	Ten-Month Period Ended October 25, 2009	Years Ended December 31, 2008 2007 2006	
Ratio of earnings to fixed charges	4.0x		21.2x		

The ratio of earnings to fixed charges is computed by dividing (i) income (loss) from continuing operations before income taxes plus fixed charges by (ii) fixed charges. Our fixed charges consist of the portion of operating lease rental expense that is representative of the appropriate interest factor and interest expense on indebtedness.

Where a dash appears, our earnings were negative and were insufficient to cover fixed charges during the period. Our deficiencies to cover fixed charges in each period presented were as follows:

	Successor	Predecessor		
	Two-Month Period Ended December 31, 2009	2008 (in millions)	2007	2006
Deficiencies	\$ 0.5	\$ 327.5	\$ 132.0	\$ 78.8

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**USE OF PROCEEDS**

We will not receive any proceeds from the resale of the notes offered by this prospectus.

**DIVIDEND POLICY**

We do not intend to pay any cash dividends on our common stock in the foreseeable future. We anticipate that we will retain all of our future earnings for use in the development of our business and for general corporate purposes. Any determination to pay dividends in the future will be at the discretion of our board of directors. The payment of cash dividends on our common stock is restricted under the terms of the indenture governing our senior notes.

On April 19, 2010, we made a \$130.7 million cash distribution to our unitholders using proceeds from the sale of our senior notes. The per common unit distribution was \$0.4254.

**CORPORATE CONVERSION**

Prior to the effectiveness of the registration statement filed in connection with the MagnaChip Corporation IPO, our board of directors and the holders of a majority of our outstanding common units elected to convert MagnaChip Semiconductor LLC from a Delaware limited liability company to a Delaware corporation and to change the name of the company from MagnaChip Semiconductor LLC to MagnaChip Semiconductor Corporation. The conversion was completed on March 10, 2011. In order to consummate such a conversion, a certificate of conversion was filed with the Secretary of State of the State of Delaware prior to the effectiveness of the registration statement filed in connection with the MagnaChip Corporation IPO. In connection with the corporate conversion, outstanding common units of MagnaChip Semiconductor LLC were automatically converted into shares of common stock of MagnaChip Semiconductor Corporation, outstanding options to purchase common units of MagnaChip Semiconductor LLC were automatically converted into options to purchase shares of common stock of MagnaChip Semiconductor Corporation and outstanding warrants to purchase common units of MagnaChip Semiconductor LLC were automatically converted into warrants to purchase shares of common stock of MagnaChip Semiconductor Corporation, all at a ratio of eight-for-one.

**Table of Contents****CAPITALIZATION**

The following table sets forth the following information:

the actual capitalization of MagnaChip Semiconductor Corporation as of December 31, 2010; and

our actual capitalization as of December 31, 2010 as adjusted to give effect to the sale by MagnaChip Semiconductor Corporation of 950,000 shares of common stock in the MagnaChip Corporation IPO at an initial public offering price of \$14.00 per share, after the deduction of the underwriting discounts and commissions of \$0.9 million and the estimated offering expenses of \$10.8 million payable by us, and the application of the related proceeds therefrom.

This table should be read together with Selected Historical Consolidated Financial and Operating Data, Management's Discussion and Analysis of Financial Condition and Results of Operations and our consolidated financial statements and related notes included elsewhere in this prospectus.

	As of December 31, 2010	
	Actual	As Adjusted
	(in millions)	
10.500% senior notes due 2018(1)	\$ 246.9	\$ 246.9
Capital lease obligation (including current maturities)	8.7	8.7
Stockholders' equity:		
Common stock, \$0.01 par value; 150,000,000 shares authorized, 38,401,985 shares issued and outstanding, actual; and 39,351,985 shares issued and outstanding, as adjusted	0.4	0.4
Preferred stock, \$0.01 par value, no shares authorized, issued and outstanding, actual; 5,000,000 shares authorized, no shares issued and outstanding, as adjusted		
Additional paid-in capital	95.6	97.1
Retained earnings	72.2	72.2
Accumulated other comprehensive loss	(5.3)	(5.3)
Total stockholders' equity	162.9	164.4
Total capitalization	\$ 418.4	\$ 420.0

(1) Represents principal amount of notes net of original issue discount of \$3.1 million.

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**SELECTED HISTORICAL CONSOLIDATED FINANCIAL AND OPERATING DATA**

The following tables set forth selected historical consolidated financial data of MagnaChip Semiconductor Corporation, on or as of the dates and for the periods indicated. The selected historical consolidated financial data presented below should be read together with Management's Discussion and Analysis of Financial Condition and Results of Operations and our consolidated financial statements, including the notes to those consolidated financial statements, appearing elsewhere in this prospectus.

We have derived the selected consolidated financial data as of December 31, 2010 and 2009 and for the year ended December 31, 2010, the two-month period ended December 31, 2009, the ten-month period ended October 25, 2009 and the year ended December 31, 2008 from the historical audited consolidated financial statements of MagnaChip Semiconductor Corporation included elsewhere in this prospectus. We have derived the selected consolidated financial data as of December 31, 2008, 2007 and 2006 and for the years ended December 31, 2007 and 2006 from the historical audited consolidated financial statements of MagnaChip Semiconductor LLC not included in this prospectus. The historical consolidated financial data for the year ended December 31, 2010 and the two-month period ended December 31, 2009 give retroactive effect to the corporate conversion. The historical results of MagnaChip Semiconductor Corporation for any prior period are not necessarily indicative of the results to be expected in any future period.

In connection with our emergence from reorganization proceedings, we implemented fresh-start accounting in accordance with ASC 852 governing reorganizations. We elected to adopt a convenience date of October 25, 2009 (a month end for our financial reporting purposes) for application of fresh-start accounting. In accordance with the ASC 852 governing reorganizations, we recorded largely non-cash reorganization income and expense items directly associated with our reorganization proceedings including professional fees, the revaluation of assets, the effects of our reorganization plan and fresh-start accounting and write-off of debt issuance costs. As a result of the application of fresh-start accounting, our financial statements prior to and including October 25, 2009 represent the operations of our pre-reorganization predecessor company and are presented separately from the financial statements of our post-reorganization successor company. As a result of the application of fresh-start accounting, the financial statements prior to and including October 25, 2009 are not fully comparable with the financial statements for periods after October 25, 2009.

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	Successor(1)			Predecessor		
	Year Ended December 31, 2010	Two Month Period Ended December 31, 2009	Ten Month Period Ended October 25, 2009	Years Ended December 31, 2008      2007      2006		
<b>Statements of Operations Data:</b>						
Net sales	\$ 770.4	\$ 111.1	\$ 449.0	\$ 601.7	\$ 709.5	\$ 683.9
Cost of sales	526.8	90.4	311.1	445.3	578.9	580.4
Gross profit	243.6	20.7	137.8	156.4	130.7	103.4
Selling, general and administrative expenses	66.6	14.5	56.3	81.3	82.7	76.1
Research and development expenses	83.5	14.7	56.1	89.5	90.8	87.2
Restructuring and impairment charges	2.0		0.4	13.4	12.1	1.7
Operating income (loss) from continuing operations	91.4	(8.6)	25.0	(27.7)	(54.9)	(61.6)
Interest expense, net	(22.9)	(1.3)	(31.2)	(76.1)	(60.3)	(57.2)
Foreign currency gain (loss), net	14.7	9.3	43.4	(210.4)	(4.7)	50.9
Reorganization items, net			804.6			
Others	(0.7)					
	(8.9)	8.1	816.8	(286.5)	(65.0)	(6.3)
Income (loss) from continuing operations before income taxes	82.5	(0.5)	841.8	(314.3)	(120.0)	(67.9)
Income tax expenses	8.4	1.9	7.3	11.6	8.8	9.1
Income (loss) from continuing operations	74.1	(2.5)	834.5	(325.8)	(128.8)	(76.9)
Income (loss) from discontinued operations, net of taxes		0.5	6.6	(91.5)	(51.7)	(152.4)
Net income (loss)	\$ 74.1	\$ (2.0)	\$ 841.1	\$ (417.3)	\$ (180.6)	\$ (229.3)
Dividends accrued on preferred units			6.3	13.3	12.0	10.9
Income (loss) from continuing operations attributable to common units	\$ 74.1	\$ (2.5)	\$ 828.2	\$ (339.1)	\$ (140.9)	\$ (87.9)
Net income (loss) attributable to common units	\$ 74.1	\$ (2.0)	\$ 834.8	\$ (430.6)	\$ (192.6)	\$ (240.2)
<b>Per unit/share data:</b>						
Earnings (loss) from continuing operations per common unit/share						
Basic	\$ 1.96	\$ (0.07)	\$ 15.65	\$ (6.43)	\$ (2.69)	\$ (1.66)
Diluted	\$ 1.89	\$ (0.07)	\$ 15.65	\$ (6.43)	\$ (2.69)	\$ (1.66)
Earnings (loss) from discontinued operations per common unit/share						
Basic and diluted	\$	\$ 0.02	\$ 0.12	\$ (1.73)	\$ (0.99)	\$ (2.88)
Earnings (loss) per common unit/share						
Basic	\$ 1.96	\$ (0.05)	\$ 15.77	\$ (8.16)	\$ (3.68)	\$ (4.54)
Diluted	\$ 1.89	\$ (0.05)	\$ 15.77	\$ (8.16)	\$ (3.68)	\$ (4.54)
Weighted average number of common units/stock						
Basic	37.836	37.608	52.923	52.769	52.297	52.912
Diluted	39.144	37.608	52.923	52.769	52.297	52.912
<b>Balance Sheet Data (at period end):</b>						
Cash and cash equivalents	\$ 172.2	\$ 64.9		\$ 4.0	\$ 64.3	\$ 89.2

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Total assets	625.7	453.3	399.2	707.9	770.1
Total indebtedness(2)	246.9	61.8	845.0	830.0	750.0
Long-term obligations(3)	250.0	61.5	143.2	879.4	867.4
Stockholders /Unitholders equity	162.9	215.7	(787.8)	(477.5)	(284.5)
<b>Supplemental Data (unaudited):</b>					
Adjusted EBITDA(4)	\$ 157.9	\$ 22.1	\$ 76.6	\$ 59.8	
Adjusted Net Income (Loss)(5)	89.2	13.3	9.3	(71.7)	

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- (1) As of October 25, 2009, the fresh-start adoption date, we adopted fresh-start accounting for our consolidated financial statements. Because of the emergence from reorganization proceedings and adoption of fresh-start accounting, the historical financial information for periods after October 25, 2009 is not fully comparable to periods before October 25, 2009. See Management's Discussion and Analysis of Financial Condition and Results of Operations Recent Changes to Our Business.
- (2) Total indebtedness is calculated as long and short-term borrowings, including the current portion of long-term borrowings.
- (3) Long-term obligations include long-term borrowings, capital leases and redeemable convertible preferred units.
- (4) We define Adjusted EBITDA as net income (loss) less income (loss) from discontinued operations, net of taxes, adjusted to exclude (i) depreciation and amortization associated with continuing operations, (ii) interest expense, net, (iii) income tax expenses (benefits), (iv) restructuring and impairment charges, (v) other restructuring charges, (vi) abandoned IPO expenses, (vii) reorganization items, net, (viii) the increase in cost of sales resulting from the fresh-start accounting inventory step-up, (ix) equity-based compensation expense, (x) foreign currency gain (loss), net and (xi) derivative valuation gain (loss), net. See the footnotes to the table below for further information regarding these items. We present Adjusted EBITDA as a supplemental measure of our performance because:

Adjusted EBITDA eliminates the impact of a number of items that may be either one time or recurring items that we do not consider to be indicative of our core ongoing operating performance;

we believe that Adjusted EBITDA is an enterprise level performance measure commonly reported and widely used by analysts and investors in our industry;

we anticipate that our investor and analyst presentations after we are public will include Adjusted EBITDA; and

we believe that Adjusted EBITDA provides investors with a more consistent measurement of period to period performance of our core operations, as well as a comparison of our operating performance to that of other companies in our industry.

We use Adjusted EBITDA in a number of ways, including:

for planning purposes, including the preparation of our annual operating budget;

to evaluate the effectiveness of our enterprise level business strategies;

in communications with our board of directors concerning our consolidated financial performance; and

in certain of our compensation plans as a performance measure for determining incentive compensation payments.

We encourage you to evaluate each adjustment and the reasons we consider them appropriate. In evaluating Adjusted EBITDA, you should be aware that in the future we may incur expenses similar to the adjustments in this presentation. Adjusted EBITDA is not a measure defined in accordance with GAAP and should not be construed as an alternative to income from continuing operations, cash flows from operating activities or net income (loss), as determined in accordance with GAAP. A reconciliation of net income (loss) to Adjusted EBITDA is as follows:

	Successor		Predecessor	
	Year Ended	Two-Month Period Ended	Ten-Month Period Ended October	Year Ended
	December 31, 2010	December 31, 2009	25, 2009	December 31, 2008



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	(In millions)			
Net income (loss)	\$ 74.1	\$ (2.0)	\$ 841.1	\$ (417.3)
Less: Income (loss) from discontinued operations, net of taxes		0.5	6.6	(91.5)
Income (loss) from continuing operations	74.1	(2.5)	834.5	(325.8)
Adjustments:				
Depreciation and amortization associated with continuing operations	58.4	11.2	37.7	63.8
Interest expense, net	22.9	1.3	31.2	76.1
Income tax expenses	8.4	1.9	7.3	11.6
Restructuring and impairment charges(a)	2.0		0.4	13.4
Other restructuring charges(b)			13.3	6.2
Abandoned IPO expenses(c)				3.7
Reorganization items, net(d)			(804.6)	
Inventory step-up(e)	0.9	17.2		
Equity-based compensation expense(f)	5.2	2.2	0.2	0.5
Foreign currency loss (gain), net(g)	(14.7)	(9.3)	(43.4)	210.4
Derivative valuation loss, net(h)	0.7			
Adjusted EBITDA	\$ 157.9	\$ 22.1	\$ 76.6	\$ 59.8

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- (a) This adjustment is comprised of all items included in the restructuring and impairment charges line item on our consolidated statements of operations, and eliminates the impact of restructuring and impairment charges related to (i) for 2010, impairment charges of \$2.0 million recorded, of which \$1.6 million of impairment charges were recognized for abandoned in-process research and development projects and \$0.4 million of impairment charges were recognized as a result of an annual impairment test of in-process research and development, accounted for as indefinite-lived intangible assets as part of the application of fresh-start accounting, (ii) for 2009, termination benefits and other related costs, for the ten-month period ended October 25, 2009 in connection with the closure of one of our research and development facilities in Japan, (iii) for 2008, goodwill impairment triggered by the significant adverse change in the revenue of our mobile display solutions, or MDS reporting unit, and a reversal of a portion of the restructuring accrual related to the closure of our Gumi five-inch wafer fabrication facilities in 2007. We do not believe these restructuring and impairment charges are indicative of our core ongoing operating performance because we do not anticipate similar facility closures and market driven events in our ongoing operations, although we cannot guarantee that similar events will not occur in the future.
- (b) This adjustment relates to certain restructuring charges that are not included in the restructuring and impairment charges line item on our consolidated statements of operations. These items are included in selling, general and administrative expenses in our consolidated statements of operations. These charges are comprised of the following: (i) for 2009, a charge of \$13.3 million for restructuring-related professional fees and related expenses, and (ii) for 2008, a charge of \$6.2 million for restructuring-related professional fees and related expenses. We do not believe these other restructuring charges are indicative of our core ongoing operating performance because these charges were related, in significant part, to actions we took in response to the impacts on our business resulting from the global economic recession that persisted through 2008 and 2009. We cannot guarantee that similar charges will not be incurred in the future.
- (c) This adjustment eliminates a \$3.7 million charge related to expenses incurred in connection with our abandoned initial public offering in 2008. We do not believe that these charges are indicative of our core operating performance. We incurred similar costs in connection with the MagnaChip Corporation IPO.
- (d) This adjustment eliminates the impact of largely non-cash reorganization income and expense items directly associated with our reorganization proceedings from our ongoing operations including, among others, professional fees, the revaluation of assets, the effects of the Chapter 11 reorganization plan and fresh-start accounting principles and the write-off of debt issuance costs. Included in reorganization items, net for the ten-month period ended October 25, 2009 was our predecessor's gain recognized from the effects of our reorganization proceedings. The gain results from the difference between our predecessor's carrying value of remaining pre-petition liabilities subject to compromise and the amounts to be distributed pursuant to the reorganization proceedings. The gain from the effects of the reorganization proceedings and the application of fresh-start accounting principles is comprised of the discharge of liabilities subject to compromise, net of the issuance of new common units and new warrants and the accrual of amounts to be settled in cash. For details regarding this adjustment, see note 5 to the consolidated financial statements of MagnaChip Semiconductor Corporation included elsewhere in this prospectus. We do not believe these items are indicative of our core ongoing operating performance because they were incurred as a result of our Chapter 11 reorganization.
- (e) This adjustment eliminates the one-time impact on cost of sales associated with the write-up of our inventory in accordance with the principles of fresh-start accounting upon consummation of the Chapter 11 reorganization.
- (f) This adjustment eliminates the impact of non-cash equity-based compensation expenses. Although we expect to incur non-cash equity-based compensation expenses in the future, we believe that analysts and investors will find it helpful to review our operating performance without the effects of these non-cash expenses, as supplemental information.
- (g) This adjustment eliminates the impact of non-cash foreign currency translation associated with intercompany debt obligations and foreign currency denominated receivables and payables, as well as the cash impact of foreign currency transaction gains or losses on collection of such receivables and payment of such payables. Although we expect to incur foreign currency translation gains or losses in the future, we believe that analysts and investors will find it helpful to review our operating performance without the effects of these primarily non-cash gains or losses, as supplemental information.
- (h) This adjustment eliminates the impact of gain or loss recognized in income on derivatives, which represents hedge ineffectiveness or derivatives value changes excluded from the risk being hedged. We enter into derivative transactions to mitigate foreign exchange risks. As our derivative transactions are limited to a certain portion of our expected cash flows denominated in USD, and we do not enter into derivative transactions for trading or speculative purposes, we do not believe that these charges or gains are indicative of our core operating performance.

Adjusted EBITDA has limitations as an analytical tool, and you should not consider it in isolation, or as a substitute for analysis of our results as reported under GAAP. Some of these limitations are:

Adjusted EBITDA does not reflect our cash expenditures, or future requirements, for capital expenditures or contractual commitments;

Adjusted EBITDA does not reflect changes in, or cash requirements for, our working capital needs;

Adjusted EBITDA does not reflect the interest expense, or the cash requirements necessary to service interest or principal payments, on our debt;

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although depreciation and amortization are non-cash charges, the assets being depreciated and amortized will often have to be replaced in the future, and Adjusted EBITDA does not reflect any cash requirements for such replacements;

Adjusted EBITDA does not consider the potentially dilutive impact of issuing equity-based compensation to our management team and employees;

Adjusted EBITDA does not reflect the costs of holding certain assets and liabilities in foreign currencies; and

other companies in our industry may calculate Adjusted EBITDA differently than we do, limiting its usefulness as a comparative measure. Because of these limitations, Adjusted EBITDA should not be considered as a measure of discretionary cash available to us to invest in the growth of our business. We compensate for these limitations by relying primarily on our GAAP results and using Adjusted EBITDA only supplementally.

- (5) We present Adjusted Net Income as a further supplemental measure of our performance. We prepare Adjusted Net Income by adjusting net income (loss) to eliminate the impact of a number of non-cash expenses and other items that may be either one time or recurring that we do not consider to be indicative of our core ongoing operating performance. We believe that Adjusted Net Income is particularly useful because it reflects the impact of our asset base and capital structure on our operating performance.

We present Adjusted Net Income for a number of reasons, including:

we use Adjusted Net Income in communications with our board of directors concerning our consolidated financial performance;

we believe that Adjusted Net Income is an enterprise level performance measure commonly reported and widely used by analysts and investors in our industry; and

we anticipate that our investor and analyst presentations after we are public will include Adjusted Net Income.

Adjusted Net Income is not a measure defined in accordance with GAAP and should not be construed as an alternative to income from continuing operations, cash flows from operating activities or net income (loss), as determined in accordance with GAAP. We encourage you to evaluate each adjustment and the reasons we consider them appropriate. Other companies in our industry may calculate Adjusted Net Income differently than we do, limiting its usefulness as a comparative measure. In addition, in evaluating Adjusted Net Income, you should be aware that in the future we may incur expenses similar to the adjustments in this presentation. We define Adjusted Net Income as net income (loss) less income (loss) from discontinued operations, net of taxes, excluding (i) restructuring and impairment charges, (ii) other restructuring charges, (iii) abandoned IPO expenses, (iv) reorganization items, net, (v) the increase in cost of sales resulting from the fresh-start accounting inventory step-up, (vi) equity-based compensation expense, (vii) amortization of intangibles associated with continuing operations, (viii) foreign currency gain (loss) and (ix) derivative valuation gain (loss), net.

The following table summarizes the adjustments to net income (loss) that we make in order to calculate Adjusted Net Income for the periods indicated:

	<b>Successor</b>		<b>Predecessor</b>
	<b>Year</b>	<b>Two-Month</b>	<b>Ten-Month</b>
	<b>Ended</b>	<b>Period</b>	<b>Period Ended</b>
	<b>December 31,</b>	<b>Ended</b>	<b>October</b>
	<b>2010</b>	<b>December 31,</b>	<b>25,</b>
		<b>2009</b>	<b>2009</b>
			<b>December 31,</b>
			<b>2008</b>

(In millions)

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Net income (loss)	\$ 74.1	\$ (2.0)	\$ 841.1	\$ (417.3)
Less: Income (loss) from discontinued operations, net of taxes		0.5	6.6	(91.5)
Income (loss) from continuing operations	74.1	(2.5)	834.5	(325.8)
Adjustments:				
Restructuring and impairment charges(a)	2.0		0.4	13.4
Other restructuring charges(b)			13.3	6.2
Abandoned IPO expenses(c)				3.7
Reorganization items, net(d)			(804.6)	
Inventory step-up(e)	0.9	17.2		
Equity-based compensation expense(f)	5.2	2.2	0.2	0.5
Amortization of intangibles associated with continuing operations(g)	21.0	5.6	8.8	20.0
Foreign currency loss (gain), net(h)	(14.7)	(9.3)	(43.4)	210.4
Derivative valuation loss, net(i)	0.7			
Adjusted Net Income (Loss)	\$ 89.2	\$ 13.3	\$ 9.3	\$ (71.7)

- (a) This adjustment is comprised of all items included in the restructuring and impairment charges line item on our consolidated statements of operations, and eliminates the impact of restructuring and impairment charges related

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to (i) for 2010, impairment charges of \$2.0 million recorded, of which \$1.6 million of impairment charges were recognized for abandoned in-process research and development projects and \$0.4 million of impairment charges were recognized as a result of an annual impairment test of in-process research and development, accounted for as indefinite-lived intangible assets as part of the application of fresh-start accounting, (ii) for 2009, termination benefits and other related costs, for the ten-month period ended October 25, 2009 in connection with the closure of one of our research and development facilities in Japan, (iii) for 2008, goodwill impairment triggered by the significant adverse change in the revenue of our MDS reporting unit and a reversal of a portion of the restructuring accrual related to the closure of our Gumi five-inch wafer fabrication facilities in 2007. We do not believe these restructuring and impairment charges are indicative of our core ongoing operating performance because we do not anticipate similar facility closures and market driven events in our ongoing operations, although we cannot guarantee that similar events will not occur in the future.

- (b) This adjustment relates to certain restructuring charges that are not included in the restructuring and impairment charges line item on our consolidated statements of operations. These items are included in selling, general and administrative expenses in our consolidated statements of operations. These charges are comprised of the following: (i) for 2009, a charge of \$13.3 million for restructuring-related professional fees and related expenses, and (ii) for 2008, a charge of \$6.2 million for restructuring-related professional fees and related expenses. We do not believe these other restructuring charges are indicative of our core ongoing operating performance because these charges were related, in significant part, to actions we took in response to the impacts on our business resulting from the global economic recession that persisted through 2008 and 2009. We cannot guarantee that similar charges will not be incurred in the future.
- (c) This adjustment eliminates a \$3.7 million charge in 2008 related to expenses incurred in connection with our abandoned initial public offering in 2008. We do not believe that these charges are indicative of our core operating performance. We incurred similar costs in connection with the MagnaChip Corporation IPO.
- (d) This adjustment eliminates the impact of largely non-cash reorganization income and expense items directly associated with our reorganization proceedings from our ongoing operations including, among others, professional fees, the revaluation of assets, the effects of the Chapter 11 reorganization plan and fresh-start accounting principles and the write-off of debt issuance costs. Included in reorganization items, net for the ten-month period ended October 25, 2009 was our predecessor's gain recognized from the effects of our reorganization proceedings. The gain results from the difference between our predecessor's carrying value of remaining pre-petition liabilities subject to compromise and the amounts to be distributed pursuant to the reorganization proceedings. The gain from the effects of the reorganization proceedings and the application of fresh-start accounting principles is comprised of the discharge of liabilities subject to compromise, net of the issuance of new common units and new warrants and the accrual of amounts to be settled in cash. For details regarding this adjustment, see note 5 to the consolidated financial statements of MagnaChip Semiconductor Corporation included elsewhere in this prospectus. We do not believe these items are indicative of our core ongoing operating performance because they were incurred as a result of our reorganization proceedings.
- (e) This adjustment eliminates the one-time impact on cost of sales associated with the write-up of our inventory in accordance with the principles of fresh-start accounting upon consummation of the Chapter 11 reorganization.
- (f) This adjustment eliminates the impact of non-cash equity-based compensation expenses. Although we expect to incur non-cash equity-based compensation expenses in the future, we believe that analysts and investors will find it helpful to review our operating performance without the effects of these non-cash expenses, as supplemental information.
- (g) This adjustment eliminates the non-cash impact of amortization expense for intangible assets created as a result of the purchase accounting treatment of the Original Acquisition and other subsequent acquisitions, and from the application of fresh-start accounting in connection with the reorganization proceedings. We do not believe these non-cash amortization expenses for intangibles are indicative of our core ongoing operating performance because the assets would not have been capitalized on our balance sheet but for the application of purchase accounting or fresh-start accounting, as applicable.
- (h) This adjustment eliminates the impact of non-cash foreign currency translation associated with intercompany debt obligations and foreign currency denominated receivables and payables, as well as the cash impact of foreign currency transaction gains or losses on collection of such receivables and payment of such payables. Although we expect to incur foreign currency translation gains or losses in the future, we believe that analysts and investors will find it helpful to review our operating performance without the effects of these primarily non-cash gains or losses, as supplemental information.
- (i) This adjustment eliminates the impact of gain or loss recognized in income on derivatives, which represents hedge ineffectiveness or derivatives value changes excluded from the risk being hedged. We enter into derivative transactions to mitigate foreign exchange risks. As our derivative transactions are limited to a certain portion of our expected cash flows denominated in USD, and we do not enter into derivative transactions for trading or speculative purposes, we do not believe that these charges or gains are indicative of our core operating performance.

Adjusted Net Income has limitations as an analytical tool, and you should not consider it in isolation, or as a substitute for analysis of our results as reported under GAAP. Some of these limitations are:

Adjusted Net Income does not reflect our cash expenditures, or future requirements, for capital expenditures or contractual commitments;

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Adjusted Net Income does not reflect changes in, or cash requirements for, our working capital needs;

Adjusted Net Income does not consider the potentially dilutive impact of issuing equity-based compensation to our management team and employees;

Adjusted Net Income does not reflect the costs of holding certain assets and liabilities in foreign currencies; and

other companies in our industry may calculate Adjusted Net Income differently than we do, limiting its usefulness as a comparative measure.

Because of these limitations, Adjusted Net Income should not be considered as a measure of discretionary cash available to us to invest in the growth of our business. We compensate for these limitations by relying primarily on our GAAP results and using Adjusted Net Income only supplementally.

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**UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL INFORMATION**

We have prepared the unaudited pro forma condensed consolidated financial information of MagnaChip for the year ended December 31, 2010 in accordance with Article 11 of Regulation S-X.

The unaudited pro forma condensed consolidated statement of operations for the year ended December 31, 2010 is derived from the historical consolidated financial statements of MagnaChip Semiconductor Corporation and gives pro forma effect to the following as if these events had occurred on January 1, 2010:

the reorganization proceedings and adoption of fresh-start reporting;

the corporate conversion; and

the issuance of \$250 million senior notes by MagnaChip Semiconductor S.A. and MagnaChip Semiconductor Finance Company, our wholly-owned subsidiaries, and the application of the net proceeds therefrom.

**Basis of Presentation**

The following information should be read in conjunction with Selected Historical Consolidated Financial and Operating Data, Management's Discussion and Analysis of Financial Condition and Results of Operations, Risk Factors, Capitalization and the audited consolidated financial statements of MagnaChip Semiconductor Corporation and the related notes included elsewhere in this prospectus. The unaudited pro forma consolidated financial information is not necessarily indicative of operating results that would have been achieved if the transactions identified above had occurred on the dates indicated, nor does it purport to represent the results we will obtain in the future.

Management prepared the accompanying unaudited pro forma condensed consolidated statements of operations for the year ended December 31, 2010 in accordance with Article 11 of Regulation S-X for inclusion in this prospectus.

The accounting policies used in the preparation of the unaudited pro forma consolidated financial statements are those disclosed in the audited consolidated financial statements of MagnaChip Semiconductor Corporation for the year ended December 31, 2010.

The following unaudited pro forma condensed consolidated financial information should be read in conjunction with Capitalization, Selected Historical Consolidated Financial and Operating Data, Management's Discussion and Analysis of Financial Condition and Results of Operations and our consolidated financial statements, including the notes to those consolidated financial statements, included elsewhere in this prospectus.

**The Reorganization Proceedings and Fresh-Start Reporting**

On June 12, 2009 MagnaChip Semiconductor LLC, along with certain of its subsidiaries, including MagnaChip Semiconductor S.A., filed a voluntary petition for relief in the United States Bankruptcy Court for the District of Delaware under Chapter 11 of the United States Bankruptcy Code. On November 9, 2009, our plan of reorganization became effective and we emerged from the reorganization proceedings.

In connection with our emergence from the reorganization proceedings, we implemented fresh-start accounting in accordance with ASC 852. We elected to adopt a convenience date of October 25, 2009 (a month end for our financial reporting purposes) for application of fresh-start accounting. In accordance with ASC 852, we recorded largely non-cash reorganization income and expense items

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directly associated with our reorganization proceedings including the revaluation of assets, the effects of our reorganization plan and fresh-start accounting, the write-off of debt issuance costs and professional fees.

In implementing fresh-start reporting our asset values were remeasured and allocated in conformity with ASC guidance on business combinations. Fresh-start reporting requires that all liabilities, other than deferred taxes and severance benefits, be stated at fair value. Deferred taxes are determined in conformity with guidance on income taxes.

**The Corporate Conversion**

On March 10, 2011, MagnaChip Semiconductor LLC converted from a Delaware limited liability company to a Delaware corporation and changed its name to MagnaChip Semiconductor Corporation. The corporate conversion adjustments in the unaudited pro forma consolidated financial information for the year ended December 31, 2010 assume the consummation of the corporate conversion and the effectiveness of our post-conversion certificate of incorporation, which occurred prior to the effectiveness of MagnaChip Corporation IPO.

**Issuance of \$250 Million Senior Notes and Applications of Net Proceeds**

On April 9, 2010, MagnaChip Semiconductor S.A. and MagnaChip Semiconductor Finance Company, our wholly-owned subsidiaries, completed the sale of \$250 million in aggregate principal amount of 10.500% senior notes due 2018 at an offering price of 98.674%. Net proceeds from the notes offering were \$238.4 million which represents \$250 million of principal amount net of \$3.3 million of original issue discount and \$8.3 million of debt issuance costs, including professional fees. Of the \$238.4 million of net proceeds, \$130.7 million was used to make a distribution to our unitholders and \$61.6 million was used to repay all outstanding borrowings under our term loan. The remaining proceeds of \$46.1 million were retained to fund working capital and for general corporate purposes.

	Historical Year Ended December 31, 2010	Adjustments	Pro Forma Year Ended December 31, 2010
	(In millions, except per common share data)		
<b>Condensed Pro Forma Statement of Operations:</b>			
Net sales	\$ 770.4	\$	\$ 770.4
Cost of sales	526.8	(0.9)(1)	526.0
Gross profit	243.6		244.4
Selling, general and administrative expenses	66.6		66.6
Research and development expenses	83.5		83.5
Restructuring and impairment charges	2.0		2.0
Operating income from continuing operations	91.4		92.3
Interest expense, net	(22.9)	(5.0)(2)	(27.9)
Foreign currency gain, net	14.7		14.7
Others	(0.7)		(0.7)
	(8.9)		(13.9)
Income from continuing operations before income taxes	82.5		78.4
Income tax expenses	8.4	3.6(3)	12.0
Income from continuing operations	\$ 74.1		\$ 66.4
Per common share data:			
Earnings from continuing operations per common share			
Basic	\$ 1.96		\$ 1.75



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Diluted	\$ 1.89	\$ 1.70
Weighted average number of common shares		
Basic	37.836	37.836
Diluted	39.144	39.144

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**Notes to Unaudited Pro Forma Consolidated Financial Information for the Year Ended December 31, 2010**

- (1) To eliminate the one-time impact on cost of sales associated with the step up of our inventory of \$17.9 million resulting from implementation of fresh-start accounting, of which \$0.9 million was charged to cost of sales in the historical statement of operations for the year ended December 31, 2010, applying the first in, first out method, or FIFO. This adjustment is considered a material non-recurring charge which is directly attributable to the reorganization proceedings and fresh-start accounting and as such is being eliminated from the historical statement of operations in presenting the unaudited pro forma statement of operations.
- (2) To eliminate interest expense of \$2.1 million which was incurred on our \$61.6 million aggregate principal amount new term loan and \$0.2 million write-off of debt issuance costs in connection with repayment of our new term loan which was recognized in the year ended December 31, 2010. In addition, the pro forma adjustment assumes the 10.500% senior notes in the aggregate principal amount of \$250.0 million, issued on April 9, 2010, were outstanding as of January 1, 2010. The resulting additional interest expense from our 10.500% senior notes would have been \$7.3 million using the effective interest rate method.
- (3) We believe that the pro forma adjustments related to the issuance of \$250 million aggregate principal amount of senior notes and the application of the net proceeds should not have an impact on income tax expense for the year ended December 31, 2010. The pro forma adjustment resulting in an increase in interest expense, net, is primarily related to our foreign subsidiary that has sufficient amounts of operating loss carry forwards with full valuation allowance for deferred tax assets and, accordingly, such pro forma adjustment will have no income tax effect.

Assuming that the corporate conversion of MagnaChip Semiconductor LLC, a partnership entity, into MagnaChip Semiconductor Corporation was effective as of January 1, 2010, MagnaChip Semiconductor Corporation would have been a taxable entity as of that date. The resulting income tax expenses for the year ended December 31, 2010 would be \$3.6 million, mainly attributable to long outstanding intercompany balances.

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

*The following discussion and analysis should be read in conjunction with the Selected Historical Consolidated Financial and Operating Data and our consolidated financial statements and the related notes included elsewhere in this prospectus. This discussion and analysis contains, in addition to historical information, forward-looking statements that include risks and uncertainties. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of certain factors, including those set forth under the heading Risk Factors and elsewhere in this prospectus.*

**Overview**

We are a Korea-based designer and manufacturer of analog and mixed-signal semiconductor products for high-volume consumer applications. We believe we have one of the broadest and deepest analog and mixed-signal semiconductor technology platforms in the industry, supported by our 30-year operating history, large portfolio of approximately 2,730 novel registered patents and 760 pending novel patent applications and extensive engineering and manufacturing process expertise. Our business is comprised of three key segments: Display Solutions, Power Solutions and Semiconductor Manufacturing Services. Our Display Solutions products include display drivers that cover a wide range of flat panel displays and multimedia devices. Our Power Solutions products include discrete and integrated circuit solutions for power management in high-volume consumer applications. Our Semiconductor Manufacturing Services segment provides specialty analog and mixed-signal foundry services for fabless semiconductor companies that serve the consumer, computing and wireless end markets.

Our wide variety of analog and mixed-signal semiconductor products and manufacturing services combined with our deep technology platform allows us to address multiple high-growth end markets and to rapidly develop and introduce new products and services in response to market demands. Our substantial manufacturing operations in Korea and design centers in Korea and Japan place us at the core of the global consumer electronics supply chain. We believe this enables us to quickly and efficiently respond to our customers' needs and allows us to better service and capture additional demand from existing and new customers.

To maintain and increase our profitability, we must accurately forecast trends in demand for consumer electronics products that incorporate semiconductor products we produce. We must understand our customers' needs as well as the likely end market trends and demand in the markets they serve. We must balance the likely manufacturing utilization demand of our product businesses and foundry business to optimize our facilities utilization. We must also invest in relevant research and development activities and manufacturing capacity and purchase necessary materials on a timely basis to meet our customers' demand while maintaining our target margins and cash flow.

The semiconductor markets in which we participate are highly competitive. The prices of our products tend to decrease regularly over their useful lives, and such price decreases can be significant as new generations of products are introduced by us or our competitors. We strive to offset the impact of declining selling prices for existing products through cost reductions and the introduction of new products that command selling prices above the average selling price of our existing products. In addition, we seek to manage our inventories and manufacturing capacity so as to mitigate the risk of losses from product obsolescence.

Demand for our products and services is driven primarily by overall demand for consumer electronics products and can be adversely affected by periods of weak consumer spending or by

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market share losses by our customers. To mitigate the impact of market volatility on our business, we seek to address market segments and geographies with higher growth rates than the overall consumer electronics industry. For example, in recent years, we have experienced increasing demand from OEMs and consumers in China and Taiwan relative to overall demand for our products and services. We expect to derive a meaningful portion of our growth from growing demand in such markets. We also expect that new competitors will emerge in these markets that may place increased pressure on the pricing for our products and services, but we believe that we will be able to successfully compete based upon our higher quality products and services and that the impact from the increased competition will be more than offset by increased demand arising from such markets. Further, we believe we are well-positioned competitively as a result of our long operating history, existing manufacturing capacity and our Korea-based operations.

Within our Display Solutions and Power Solutions segments, net sales are driven by design wins in which we or another company is selected by an electronics OEM or other potential customer to supply its demand for a particular product. A customer will often have more than one supplier designed in to multi-source components for a particular product line. Once designed in, we often specify the pricing of a particular product for a set period of time, with periodic discussions and renegotiations of pricing with our customers. In any given period, our net sales depend heavily upon the end-market demand for the goods in which our products are used, the inventory levels maintained by our customers and in some cases, allocation of demand for components for a particular product among selected qualified suppliers.

Within the Semiconductor Manufacturing Services business, net sales are driven by customers' decisions on which manufacturing services provider to use for a particular product. Most of our semiconductor manufacturing services customers are fabless and depend upon service providers like us to manufacture their products. A customer will often have more than one supplier of manufacturing services; however, they tend to allocate a majority of manufacturing volume to one of their suppliers. We strive to be the primary supplier of manufacturing services to our customers. Once selected as a primary supplier, we often specify the pricing of a particular service on a per wafer basis for a set period of time, with periodic discussions and renegotiations of pricing with our customers. In any given period, our net sales depend heavily upon the end-market demand for the goods in which the products we manufacture for customers are used, the inventory levels maintained by our customers and in some cases, allocation of demand for manufacturing services among selected qualified suppliers.

In contrast to fabless semiconductor companies, our internal manufacturing capacity provides us with greater control over manufacturing costs and the ability to implement process and production improvements which can favorably impact gross profit margins. Our internal manufacturing capacity also allows for better control over delivery schedules, improved consistency over product quality and reliability and improved ability to protect intellectual property from misappropriation. However, having internal manufacturing capacity exposes us to the risk of under-utilization of manufacturing capacity which results in lower gross profit margins, particularly during downturns in the semiconductor industry.

Our products and services require investments in capital equipment. Analog and mixed-signal manufacturing facilities and processes are typically distinguished by the design and process implementation expertise rather than the use of the most advanced equipment. These processes also tend to migrate more slowly to smaller geometries due to technological barriers and increased costs. For example, some of our products use high-voltage technology that requires larger geometries and that may not migrate to smaller geometries for several years, if at all. Additionally, the performance of many of our products is not necessarily dependent on geometry. As a result, our manufacturing base and strategy does not require substantial investment in leading edge process equipment, allowing us to utilize our facilities and equipment over an extended period of time with moderate required capital investments. Generally, incremental capacity expansions in our segment of the market result in more moderate industry capacity expansion as compared to leading edge processes. As a result, this

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market, and we, specifically, are less likely to experience significant industry overcapacity, which can cause product prices to plunge dramatically. In general, we seek to invest in manufacturing capacity that can be used for multiple high-value applications over an extended period of time. We believe this capital investment strategy enables us to optimize our capital investments and facilitates deeper and more diversified product and service offerings.

Our success going forward will depend upon our ability to adapt to future challenges such as the emergence of new competitors for our products and services or the consolidation of current competitors. Additionally, we must innovate to remain ahead of, or at least rapidly adapt to, technological breakthroughs that may lead to a significant change in the technology necessary to deliver our products and services. We believe that our established relationships and close collaboration with leading customers enhance our visibility into new product opportunities, market and technology trends and improve our ability to meet these challenges successfully. In our Semiconductor Manufacturing Services business, we strive to maintain competitiveness and our position as a primary manufacturing services provider to our customers by offering high value added, unique processes, high flexibility and excellent service.

### ***Controls and Procedures***

In connection with the audits of our consolidated financial statements for the ten-month period ended October 25, 2009 and two-month period ended December 31, 2009, our independent registered public accounting firm reported two control deficiencies which represented a material weakness in our internal control over financial reporting. The two control deficiencies were that we did not have a sufficient number of financial personnel with requisite financial accounting experience and that our internal controls over non-routine transactions were not effective to ensure that accounting considerations are identified and appropriately recorded. We identified and took steps to remediate this material weakness. Based on assessments of the remediation actions taken, our management has concluded that these two control deficiencies which represented a material weakness no longer exist as of December 31, 2010. See Management's Discussion and Analysis of Financial Condition and Results of Operations Controls and Procedures for management's remediation initiatives.

### ***Recent Changes to Our Business***

Beginning in the second half of 2008, we began to take steps to refocus our business strategy, enhance our operating efficiency and improve our cash flow and profitability. We restructured our continuing operations by reducing our cost structure, increasing our focus on our core, profitable technologies, products and customers, and implemented various initiatives to lower our manufacturing costs and improve our gross margins. In connection with these initiatives, we closed our Imaging Solutions business segment, which had been a source of substantial ongoing operating losses amounting to \$91.5 million and \$51.7 million in 2008 and 2007, respectively, and which required substantial ongoing capital investment. Our employee headcount has declined from 3,648 as of the end of July 2008 to 3,156 at the end of 2009. As a result of these actions, we were able to reduce our costs and improve our margins. Although our goal is to continue to focus on lower costs and improved margins on an ongoing basis, we expect that the financial benefits derived from our ongoing efforts will be incremental and any such benefits may be offset by other negative factors affecting our operations.

On June 12, 2009, we filed a voluntary petition for relief under Chapter 11 of the United States Bankruptcy Code in order to address the growing demands on our cash flow resulting from our long-term indebtedness. Our plan of reorganization went effective and we emerged from the reorganization proceeding on November 9, 2009. As a result of the plan of reorganization, our indebtedness was reduced from \$845.0 million immediately prior to the effectiveness of our plan of reorganization to \$61.8 million as of December 31, 2009.

During the first half of 2009, we instituted company-wide voluntary salary reductions, which resulted in one-time savings for our continuing operations during 2009 and which in turn contributed to

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the decrease in salaries and related expenses in 2009 relative to 2008. In June 2009, we returned to our employees one-third of the amount by which their salaries had been reduced. We reinstated salaries to prior levels in July 2009.

In connection with our emergence from reorganization proceedings, we implemented fresh-start accounting in accordance with ASC 852 governing reorganizations. We elected to adopt a convenience date of October 25, 2009 (a month end for our financial reporting purposes) for application of fresh-start accounting. In accordance with ASC 852 governing reorganizations, we recorded largely non-cash reorganization income and expense items directly associated with our reorganization proceedings including professional fees, the revaluation of assets, the effects of our reorganization plan and fresh-start accounting, and write-off of debt issuance costs.

In implementing fresh-start accounting, we re-measured our asset values and stated all liabilities, other than deferred taxes and severance benefits, at fair value. Our reorganization value was determined based on consideration of numerous factors and various valuation methodologies, including discounted cash flows, believed by management and our financial advisors to be representative of our business and industry. Information regarding the determination of the reorganization value and application of fresh-start accounting is included in note 3 to the consolidated financial statements of MagnaChip Semiconductor Corporation included elsewhere in this prospectus. In addition, under fresh-start accounting, accumulated deficit and accumulated other comprehensive income were eliminated.

Under fresh-start accounting, our inventory, net, and intangible assets, net, increased by \$17.9 million and \$28.3 million, respectively, and property, plant and equipment decreased by \$13.9 million, in each case to reflect the estimated fair value as of our emergence from our reorganization proceedings. As a result, our cost of sales for the two-month period ended December 31, 2009 included \$17.2 million of additional costs from the inventory step-up. This resulted in our gross margin for the two-month period ended December 31, 2009 being significantly lower than for the ten-month period ended October 25, 2009 and prior periods. The increase in intangible assets results in higher amortization expenses following our emergence from our reorganization proceedings which are included in cost of sales, selling general and administrative expenses and research and development expenses. The decrease in property, plant and equipment results in lower depreciation expenses, which are included in cost of sales, selling general and administrative expenses and research and development expenses following our emergence from our reorganization proceedings.

As a result of the application of fresh-start accounting, our consolidated financial statements prior to and including October 25, 2009 represent the operations of our pre-reorganization predecessor company and are presented separately from the consolidated financial statements of our post-reorganization successor company. For the purposes of our discussion and analysis of our results of operations, we often refer to results of operations for 2009 on a combined basis, including both the period before (predecessor company) and after (successor company) effectiveness of the plan of reorganization. We believe this comparison provides useful information as the principal impact of the plan of reorganization was on our debt and capital structure and not on our core operations; and many of the steps taken to improve our core operations had commenced prior to the commencement of our reorganization proceedings.

On April 9, 2010, we completed the sale of \$250 million in aggregate principal amount of 10.500% senior notes due 2018. Of the \$238.4 million of net proceeds, \$130.7 million was used to make a distribution to our unitholders and \$61.6 million was used to repay all outstanding borrowings under our term loan. The remaining proceeds of \$46.1 million were retained to fund working capital and for general corporate purposes. As a result of the higher level of indebtedness from our senior notes offering, our interest expense will increase above that which was reported for the year ended December 31, 2010 to approximately \$27.9 million per year.

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### ***Business Segments***

We report in three separate business segments because we derive our revenues from three principal business lines: Display Solutions, Power Solutions, and Semiconductor Manufacturing Services. We have identified these segments based on how we allocate resources and assess our performance.

***Display Solutions:*** Our Display Solutions products include source and gate drivers and timing controllers that cover a wide range of flat panel displays used in LCD televisions and LED televisions and displays, mobile PCs and mobile communications and entertainment devices. Our display solutions support the industry's most advanced display technologies, such as LTPS and AMOLED, as well as high-volume display technologies such as TFT. Our Display Solutions business represented 39.7%, 50.5% and 50.5% of our net sales for the fiscal years ended December 31, 2010, 2009 (on a combined basis) and 2008, respectively.

***Power Solutions:*** Our Power Solutions segment produces power management semiconductor products including discrete and integrated circuit solutions for power management in high-volume consumer applications. These products include MOSFETs, LED drivers, DC-DC converters, analog switches and linear regulators, such as low-dropout regulators, or LDOs. Our power solutions products are designed for applications such as mobile phones, LCD televisions, and desktop computers, and allow electronics manufacturers to achieve specific design goals of high efficiency and low standby power consumption. Going forward, we expect to continue to expand our power management product portfolio. Our Power Solutions business represented 7.4%, 2.2% and 0.9% of our net sales for the fiscal years ended December 31, 2010, 2009 (on a combined basis) and 2008, respectively.

***Semiconductor Manufacturing Services:*** Our Semiconductor Manufacturing Services segment provides specialty analog and mixed-signal foundry services to fabless semiconductor companies that serve the consumer, computing and wireless end markets. We manufacture wafers based on our customers' product designs. We do not market these products directly to end customers but rather supply manufactured wafers and products to our customers to market to their end customers. We offer approximately 240 process flows to our manufacturing services customers. We also often partner with key customers to jointly develop or customize specialized processes that enable our customers to improve their products and allow us to develop unique manufacturing expertise. Our manufacturing services are targeted at customers who require differentiated, specialty analog and mixed-signal process technologies such as high voltage CMOS, embedded memory and power. These customers typically serve high-growth and high-volume applications in the consumer, computing and wireless end markets. Our Semiconductor Manufacturing Services business represented 52.6%, 46.7% and 47.7% of our net sales for the fiscal years ended December 31, 2010, 2009 (on a combined basis) and 2008, respectively.

### **Additional Business Metrics Evaluated by Management**

#### ***Adjusted EBITDA and Adjusted Net Income***

We use the terms Adjusted EBITDA and Adjusted Net Income throughout this prospectus. Adjusted EBITDA, as we define it, is a non-GAAP measure. We define Adjusted EBITDA as net income (loss) less income (loss) from discontinued operations, net of taxes, adjusted to exclude: (i) depreciation and amortization associated with continuing operations, (ii) interest expense, net, (iii) income tax expense (benefits), (iv) restructuring and impairment charges, (v) other restructuring charges, (vi) abandoned IPO expenses, (vii) reorganization items, net, (viii) the increase in cost of sales resulting from the fresh-start accounting inventory step-up, (ix) equity-based compensation expense, (x) foreign currency gain (loss), net and (xi) derivative valuation gain (loss), net.

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We define Adjusted Net Income as net income (loss) less income (loss) from discontinued operations, net of taxes excluding (i) restructuring and impairment charges, (ii) other restructuring charges, (iii) abandoned IPO expenses, (iv) reorganization items, net, (v) the increase in cost of sales resulting from the fresh-start accounting inventory step-up, (vi) equity-based compensation expense, (vii) amortization of intangibles associated with continuing operations, (viii) foreign currency gain (loss), net and (ix) derivative valuation gain (loss), net.

We present Adjusted EBITDA as a supplemental measure of our performance because:

Adjusted EBITDA eliminates the impact of a number of items that may be either one time or recurring that we do not consider to be indicative of our core ongoing operating performance;

we believe that Adjusted EBITDA is an enterprise level performance measure commonly reported and widely used by analysts and investors in our industry;

we anticipate that our investor and analyst presentations after we are public will include Adjusted EBITDA; and

we believe that Adjusted EBITDA provides investors with a more consistent measurement of period to period performance of our core operations, as well as a comparison of our operating performance to companies in our industry.

We use Adjusted EBITDA in a number of ways, including:

for planning purposes, including the preparation of our annual operating budget;

to evaluate the effectiveness of our enterprise level business strategies;

in communications with our board of directors concerning our consolidated financial performance; and

in certain of our compensation plans as a performance measure for determining incentive compensation payments.

We present Adjusted Net Income for a number of reasons, including:

we use Adjusted Net Income in communications with our board of directors concerning our consolidated financial performance;

we believe that Adjusted Net Income is an enterprise level performance measure commonly reported and widely used by analysts and investors in our industry; and

we anticipate that our investor and analyst presentations after we are public will include Adjusted Net Income.

In evaluating Adjusted EBITDA and Adjusted Net Income, you should be aware that in the future we may incur expenses similar to the adjustments in our presentation of Adjusted EBITDA and Adjusted Net Income. Our presentation of Adjusted EBITDA and Adjusted Net Income should not be construed as an inference that our future results will be unaffected by unusual or non-recurring items. Adjusted EBITDA and Adjusted Net Income are not measures defined in accordance with GAAP and should not be construed as an alternative to operating income, cash flows from operating activities or net income (loss), as determined in accordance with GAAP. For additional information regarding how we



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calculate Adjusted EBITDA and Adjusted Net Income, please see Prospectus Summary Summary Historical and Unaudited Pro Forma Consolidated Financial Data.

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On a pro forma basis, our Adjusted EBITDA and Adjusted Net Income for the year ended December 31, 2010 were \$157.9 million and \$80.6 million, respectively. Our Adjusted EBITDA and Adjusted Net Income for the combined twelve-month period ended December 31, 2009 were \$98.7 million and \$22.6 million, respectively. Our Adjusted EBITDA and Adjusted Net Loss for the year ended December 31, 2008 were \$59.8 million and \$71.7 million, respectively. This improvement resulted from our restructuring efforts and improvements in market conditions.

### **Factors Affecting Our Results of Operations**

**Net Sales.** We derive a majority of our sales (net of sales returns and allowances) from three reportable segments: Display Solutions, Power Solutions and Semiconductor Manufacturing Services. Our product inventory is primarily located in Korea and is available for drop shipment globally. Outside of Korea, we maintain limited product inventory, and our sales representatives generally relay orders to our factories in Korea for fulfillment. We have strategically located our sales and technical support offices near concentrations of major customers. Our sales offices are located in Hong Kong, Japan, Korea, Taiwan, China, the United Kingdom and the United States. Our network of authorized agents and distributors consists of agents in the United States and Europe and distributors and agents in the Asia Pacific region. Our net sales from All other consist principally of rental income and, to a limited extent in 2008, semiconductor processing services for one customer where we completed a limited number of process steps, rather than the entire production process, which we refer to as unit processing.

We recognize revenue when risk and reward of ownership passes to the customer either upon shipment, upon product delivery at the customer's location or upon customer acceptance, depending on the terms of the arrangement. For the year ended December 31, 2010 and the combined twelve-month period ended December 31, 2009, we sold products to over 500 and 185 customers, respectively, and our net sales to our ten largest customers represented 63% and 69% of our net sales for the year ended December 31, 2010 and the combined twelve-month period ended December 31, 2009, respectively. The increase in number of customers is due to the continuing growth of our Power Solutions business. We have a combined production capacity of over 136,000 eight-inch equivalent semiconductor wafers per month. We believe our large-scale, cost-effective fabrication facilities enable us to rapidly adjust our production levels to meet shifts in demand by our end customers.

**Gross Profit.** Our overall gross profit generally fluctuates as a result of changes in overall sales volumes and in the average selling prices of our products and services. Other factors that influence our gross profit include changes in product mix, the introduction of new products and services and subsequent generations of existing products and services, shifts in the utilization of our manufacturing facilities and the yields achieved by our manufacturing operations, changes in material, labor and other manufacturing costs and variation in depreciation expense. Gross profit varies by our operating segments.

**Average Selling Prices.** Average selling prices for our products tend to be highest at the time of introduction of new products which utilize the latest technology and tend to decrease over time as such products mature in the market and are replaced by next generation products. We strive to offset the impact of declining selling prices for existing products through our product development activities and by introducing new products that command selling prices above the average selling price of our existing products. In addition, we seek to manage our inventories and manufacturing capacity so as to preclude losses from product and productive capacity obsolescence.

**Material Costs.** Our cost of sales consists of costs of raw materials, such as silicon wafers, chemicals, gases and tape, packaging supplies, equipment maintenance and depreciation expenses. We use processes that require specialized raw materials, such as silicon wafers, that are generally available from a limited number of suppliers. If demand increases or supplies decrease, the costs of our raw materials could significantly increase.

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**Labor Costs.** A significant portion of our employees are located in Korea. Under Korean labor laws, most employees and certain executive officers with one or more years of service are entitled to severance benefits upon the termination of their employment based on their length of service and rate of pay. As of December 31, 2010, approximately 98% of our employees were eligible for severance benefits. We have in the past implemented temporary reductions in salaries to manage through downturns in the industry. We expect to and have reversed such temporary reductions when business conditions improve.

**Depreciation Expense.** We periodically evaluate the carrying values of long-lived assets, including property, plant and equipment and intangible assets, as well as the related depreciation periods. At December 31, 2010, we depreciated our property, plant and equipment using the straight-line method over the estimated useful lives of our assets. Depreciation rates vary from 30-40 years on buildings to five to ten years for certain equipment and assets. Our evaluation of carrying values is based on various analyses including cash flow and profitability projections. If our projections indicate that future undiscounted cash flows are not sufficient to recover the carrying values of the related long-lived assets, the carrying value of the assets is impaired and will be reduced, with the reduction charged to expense so that the carrying value is equal to fair value.

**Selling Expenses.** We sell our products worldwide through a direct sales force as well as a network of sales agents and representatives to OEMs, including major branded customers and contract manufacturers, and indirectly through distributors. Selling expenses consist primarily of the personnel costs for the members of our direct sales force, a network of sales representatives and other costs of distribution. Personnel costs include base salary, benefits and incentive compensation. As incentive compensation is tied to various net sales goals, it will increase or decrease with net sales.

**General and Administrative Expenses.** General and administrative expenses consist of the costs of various corporate operations, including finance, legal, human resources and other administrative functions. These expenses primarily consist of payroll-related expenses, consulting and other professional fees and office facility-related expenses. Historically, our selling, general and administrative expenses have remained relatively constant as a percentage of net sales, and we expect this trend to continue in the future.

**Research and Development.** The rapid technological change and product obsolescence that characterize our industry require us to make continuous investments in research and development. Product development time frames vary but, in general, we incur research and development costs one to two years before generating sales from the associated new products. These expenses include personnel costs for members of our engineering workforce, cost of photomasks, silicon wafers and other non-recurring engineering charges related to product design. Additionally, we develop base-line process technology through experimentation and through the design and use of characterization wafers that help achieve commercially feasible yields for new products. The majority of research and development expenses are for process development that serves as a common technology platform for all of our product segments. Consequently, we do not allocate these expenses to individual segments. Although our research and development expenses declined significantly from 2008 to 2009, the expenses increased in the year ended December 31, 2010 and we expect the expenses to increase in future periods and to remain a relatively constant percentage of our net sales as we continue to increase our investments in research and development to develop additional products and expand our business.

**Restructuring and Impairment Charges.** We evaluate the recoverability of certain long-lived assets and in-process research and development assets on a periodic basis or whenever events or changes in circumstances indicate that the carrying value may not be recoverable. In our efforts to improve our overall profitability in future periods, we have closed or otherwise impaired, and may in the future close or impair, facilities that are underutilized and that are no longer aligned with our long-term business goals. For example, in 2008 we discontinued our Imaging Solutions business segment.

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**Interest Expense, Net.** Our interest expense was incurred under the Predecessor Company's senior secured credit facility, the Predecessor Company's second priority senior secured notes and senior subordinated notes and the Successor Company's new term loan under the Successor Company. Our new term loan bore interest at six-month LIBOR plus 12%, and was minimally offset by interest income on cash balances. In April 2010, we repaid our new term loan with a portion of the proceeds from our sale of \$250 million in aggregate principal amount of 10.500% senior notes due 2018. As a result of our reorganization, we expect that our interest expense will decrease in amount and as a percentage of net sales relative to historical periods. However, as a result of our senior notes offering, our interest expense will increase above that which was reported for the year ended December 31, 2010 to approximately \$27.9 million per year.

**Impact of Foreign Currency Exchange Rates on Reported Results of Operations.** Historically, a portion of our revenues and greater than the majority of our operating expenses and costs of sales have been denominated in non-U.S. currencies, principally the Korean won, and we expect that this will remain true in the future. Because we report our results of operations in U.S. dollars, changes in the exchange rate between the Korean won and the U.S. dollar could materially impact our reported results of operations and distort period to period comparisons. In particular, because of the difference in the amount of our consolidated revenues and expenses that are in U.S. dollars relative to Korean won, depreciation in the U.S. dollar relative to the Korean won could result in a material increase in reported costs relative to revenues, and therefore could cause our profit margins and operating income (loss) from continuing operations to appear to decline materially, particularly relative to prior periods. The converse is true if the U.S. dollar were to appreciate relative to the Korean won. As a result of such foreign currency fluctuations, it could be more difficult to detect underlying trends in our business and results of operations. In addition, to the extent that fluctuations in currency exchange rates cause our results of operations to differ from our expectations or the expectations of our investors, the trading price of our stock or the notes could be adversely affected.

For periods ended on or prior to October 25, 2009, we converted our non-U.S. revenues and expenses into U.S. dollars based on cumulative average exchange rates over the periods presented. Beginning on October 25, 2009, we convert our non-U.S. revenues and expenses into U.S. dollars based on monthly average exchange rates. The following table provides the cumulative average exchange rates that we used to convert Korean won into U.S. dollars for each of the periods ended on or prior to October 25, 2009, as well as the monthly average exchange rates used for the two-month period ended December 31, 2009 and for the year ended December 31, 2010:

Period	Rate
Year ended December 31, 2007	929:1
Year ended December 31, 2008	1,099:1
Ten-month period ended October 25, 2009	1,302:1
Two-month period ended December 31, 2009	
November 2009	1,172:1
December 2009	1,165:1
Year ended December 31, 2010	
January 2010	1,139:1
February 2010	1,157:1
March 2010	1,138:1
April 2010	1,117:1
May 2010	1,163:1
June 2010	1,212:1
July 2010	1,207:1
August 2010	1,180:1
September 2010	1,167:1
October 2010	1,123:1
November 2010	1,126:1
December 2010	1,148:1

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As a result of the depreciation of the Korean won against the U.S. dollar from 2007 to 2008 and from 2008 to 2009, foreign currency fluctuations generally had a materially beneficial impact on our reported profit margins and operating income (loss) from continuing operations for such periods. In contrast, as a result of the appreciation of the Korean won against the U.S. dollar from the year ended December 31, 2009 to the year ended December 31, 2010, foreign currency fluctuations had a net unfavorable impact on our reported profit margins and operating income (loss) from continuing operations for the year ended December 31, 2010 compared to the prior period. In order to provide more detailed information regarding the impact of foreign currency fluctuations on our results of operations, in our discussion of period to period comparisons under the heading Results of Operations, we have included information regarding the impact of the year-to-year change in the Korean won/U.S. dollar exchange rate. The information, which is described below as the impact of the depreciation or appreciation of the Korean won against the U.S. dollar, measures the impact in the change in applicable monthly or cumulative average exchange rate for the most recent period discussed as compared to the applicable monthly or cumulative average exchange rate during the prior period. For net sales that were originally denominated in Korean won, we have compared the applicable monthly or cumulative average exchange rate in effect for the prior period against the applicable monthly or cumulative average exchange rate for the period in which the sale took place on a transaction-by-transaction basis. For cost of sales and other expenses, we have compared the applicable monthly or cumulative average exchange rate during the prior period to the applicable monthly or cumulative average exchange rate during the most recent period discussed and applied that to the amount of our aggregate cost of sales and other expenses for the period that were originally denominated in Korean won. A substantial portion of the net sales recorded at our Korean subsidiary are in U.S. dollars and are converted into Korean won for reporting purposes at the subsidiary level. Although this approach does not reflect the fluctuations of the currency exchange rates for every transaction on a day-to-day basis, we believe that it provides a useful indication of the magnitude of the exchange rate impact for the periods presented.

From time to time, we may engage in exchange rate hedging activities in an effort to mitigate the impact of exchange rate fluctuations. For example, in January 2010 and May 2010 our Korean subsidiary entered into foreign currency option and forward contracts in order to mitigate a portion of the impact of U.S. dollar-Korean won exchange rate fluctuations on our operating results. The January 2010 option and forward contracts require us to sell specified notional amounts in U.S. dollars and provide us the option to sell specified notional amounts in U.S. dollars during each month of 2010 commencing February 2010 to our counterparty, in each case, in exchange for Korean won at specified fixed exchange rates. The May 2010 option and forward contracts require us to sell specified notional amounts in U.S. dollars and provide us the option to sell specified notional amounts in U.S. dollars during the months of January 2011 through June 2011 to our counterparty, in each case, in exchange for Korean won at specified fixed exchange rates. In August 2010 our Korean subsidiary additionally entered into zero cost collar contracts for the same purpose with the above hedge contracts. The August 2010 zero cost collar contracts require us to sell specified notional amounts in U.S. dollars and provide us the option to sell specified notional amounts in U.S. dollars during the months of July 2011 through December 2011 to our counterparty, in each case, in exchange for Korean won at specified fixed exchange rates. In January 2011, our Korean subsidiary additionally entered into zero cost collar contracts for the same purpose with the above hedge contracts. The January 2011 zero cost collar contracts require us to sell specified notional amounts in U.S. dollars and provide us the option to sell specified notional amounts in U.S. dollars during the months of January 2012 through June 2012 to our counterparty, in each case, in exchange for Korean won at specified fixed exchange rates. Obligations under these foreign currency option, forward and zero cost collar contracts must be cash collateralized if our exposure exceeds certain specified thresholds. These option and forward contracts may be terminated by the counterparty in a number of circumstances, including if our long-term debt rating falls below B-/B3 or if our total qualified and unrestricted cash and

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cash equivalents is less than \$30 million at the end of a fiscal quarter. For further information regarding the derivative financial instruments, see note 11 to our audited consolidated financial statements for the year ended December 31, 2010 elsewhere in this prospectus.

**Foreign Currency Gain or Loss.** Foreign currency translation gains or losses on transactions by us or our subsidiaries in a currency other than our or our subsidiaries' functional currency are included in our statements of operations as a component of other income (expense). A substantial portion of this net foreign currency gain or loss relates to non-cash translation gain or loss related to the principal balance of intercompany borrowings at our Korean subsidiary that are denominated in U.S. dollars. This gain or loss results from fluctuations in the exchange rate between the Korean won and U.S. dollar.

**Income Taxes.** We record our income taxes in each of the tax jurisdictions in which we operate. This process involves using an asset and liability approach whereby deferred tax assets and liabilities are recorded for differences in the financial reporting bases and tax bases of our assets and liabilities. We exercise significant management judgment in determining our provision for income taxes, deferred tax assets and liabilities. We periodically evaluate our deferred tax assets to ascertain whether it is more likely than not that the deferred tax assets will be realized. Our income tax expense has been low in absolute dollars and as a percentage of net sales principally due to the availability of tax loss carry-forwards and we expect such rate to remain low for at least the next few years.

Our operations are subject to income and transaction taxes in Korea and in multiple foreign jurisdictions. Significant estimates and judgments are required in determining our worldwide provision for income taxes. Some of these estimates are based on interpretations of existing tax laws or regulations. The ultimate amount of tax liability may be uncertain as a result.

**Capital Expenditures.** We invest in manufacturing equipment, software design tools and other tangible and intangible assets for capacity expansion and technology improvement. Capacity expansions and technology improvements typically occur in anticipation of seasonal increases in demand. We typically pay for capital expenditures in partial installments with portions due on order, delivery and final acceptance. Our capital expenditures include our payments for the purchase of property, plant and equipment as well as payments for the registration of intellectual property rights.

**Inventories.** We monitor our inventory levels in light of product development changes and market expectations. We may be required to take additional charges for quantities in excess of demand, cost in excess of market value and product age. Our analysis may take into consideration historical usage, expected demand, anticipated sales price, new product development schedules, the effect new products might have on the sales of existing products, product age, customer design activity, customer concentration and other factors. These forecasts require us to estimate our ability to predict demand for current and future products and compare those estimates with our current inventory levels and inventory purchase commitments. Our forecasts for our inventory may differ from actual inventory use.

**Principles of Consolidation.** Our consolidated financial statements include the accounts of our company and our wholly-owned subsidiaries. All intercompany transactions and balances are eliminated in consolidation.

**Segments.** We operate in three segments: Display Solutions, Power Solutions and Semiconductor Manufacturing Services. Our Power Solutions segment began to generate net sales in the second quarter of 2008. Net sales and gross profit for the All other category primarily relate to certain business activities that do not constitute operating or reportable segments.

**Table of Contents****Results of Operations**

The following table sets forth, for the periods indicated, certain information related to our operations, expressed in U.S. dollars and as a percentage of our net sales:

	Successor Company				Predecessor Company			
	Year Ended December 31, 2010		Two-Month Period Ended December 31, 2009		Ten-Month Period Ended October 25, 2009		Year Ended December 31, 2008	
	Amount	% of net sales	Amount	% of net sales	Amount	% of net sales	Amount	% of net sales
(In millions)								
Consolidated statements of operations data:								
Net sales	\$ 770.4	100.0%	\$ 111.1	100.0%	\$ 449.0	100.0%	\$ 601.7	100.0%
Cost of sales	526.8	68.4	90.4	81.4	311.1	69.3	445.3	74.0
Gross profit	243.6	31.6	20.7	18.6	137.8	30.7	156.4	26.0
Selling, general and administrative expenses	66.6	8.6	14.5	13.1	56.3	12.5	81.3	13.5
Research and development expenses	83.5	10.8	14.7	13.3	56.1	12.5	89.5	14.9
Restructuring and impairment charges	2.0	0.3			0.4	0.1	13.4	2.2
Operating income (loss) from continuing operations	91.4	11.9	(8.6)	(7.7)	25.0	5.6	(27.7)	(4.6)
Interest expense, net	(22.9)	(3.0)	(1.3)	(1.1)	(31.2)	(6.9)	(76.1)	(12.7)
Foreign currency gain (loss), net	14.7	1.9	9.3	8.4	43.4	9.7	(210.4)	(35.0)
Reorganization items, net					804.6	179.2		
Others	(0.7)	(0.1)						
	(8.9)	(1.2)	8.1	7.3	816.8	181.9	(286.5)	(47.6)
Income (loss) from continuing operations before income taxes	82.5	10.7	(0.5)	(0.5)	841.8	187.5	(314.3)	(52.2)
Income tax expenses	8.4	1.1	1.9	1.8	7.3	1.6	11.6	1.9
Income (loss) from continuing operations	74.1	9.6	(2.5)	(2.2)	834.5	185.9	(325.8)	(54.2)
Income (loss) from discontinued operations, net of taxes			0.5	0.5	6.6	1.5	(91.5)	(15.2)
Net income (loss)	\$ 74.1	9.6%	\$ (2.0)	(1.8)%	\$ 841.1	187.3%	\$ (417.3)	(69.4)%
Net Sales:								
Display Solutions	\$ 305.9	39.7%	\$ 51.0	46.0%	\$ 231.9	51.6%	\$ 304.1	50.5%
Power Solutions	57.3	7.4	4.7	4.3	7.6	1.7	5.4	0.9
Semiconductor Manufacturing Services	405.2	52.6	54.8	49.3	206.7	46.0	287.1	47.7
All other	2.1	0.3	0.5	0.5	2.8	0.6	5.0	0.8
	\$ 770.4	100.0%	\$ 111.1	100.0%	\$ 449.0	100.0%	\$ 601.7	100.0%

**Table of Contents****Results of Operations Comparison of Years Ended December 31, 2010 and December 31, 2009**

The following table sets forth consolidated results of operations for the year ended December 31, 2010, the two-month period ended December 31, 2009 and the ten-month period ended October 25, 2009:

	Successor Company		Predecessor Company		Change Amount
	Year Ended December 31, 2010	Two-Month Period Ended December 31, 2009	Ten-Month Period Ended October 25, 2009		
	Amount	% of Net Sales	Amount	% of Net Sales	
	(In millions)				
Net sales	\$ 770.4	100.0%	\$ 111.1	100.0%	\$ 210.3
Cost of sales	526.8	68.4	90.4	81.4	125.3
Gross profit	243.6	31.6	20.7	18.6	85.0
Selling, general and administrative expenses	66.6	8.6	14.5	13.1	(4.2)
Research and development expenses	83.5	10.8	14.7	13.3	12.6
Restructuring and impairment charges	2.0	0.3			1.6
Operating income (loss) from continuing operations	91.4	11.9	(8.6)	(7.7)	75.0
Interest expense, net	(22.9)	(3.0)	(1.3)	(1.1)	9.5
Foreign currency gain, net	14.7	1.9	9.3	8.4	(38.1)
Reorganization items, net					(804.6)
Others	(0.7)	(0.1)			(0.7)
	(8.9)	(1.2)	8.1	7.3	(833.8)
Income (loss) from continuing operations before income taxes	82.5	10.7	(0.5)	(0.5)	(758.8)
Income tax expenses	8.4	1.1	1.9	1.8	(0.9)
Income (loss) from continuing operations	74.1	9.6	(2.5)	(2.2)	(757.9)
Income from discontinued operations, net of taxes			0.5	0.5	(7.1)
Net income (loss)	\$ 74.1	9.6%	\$ (2.0)	(1.8)%	\$ (765.0)



**Table of Contents***Net Sales*

	Successor Company		Two-Month Period Ended December 31, 2009		Predecessor Company Ten-Month Period Ended October 25, 2009		Change Amount
	Year Ended December 31, 2010	% of Net Sales	Amount	% of Net Sales	Amount	% of Net Sales	
	Amount		Amount	(In millions)	Amount		
Display Solutions	\$ 305.9	39.7%	\$ 51.0	46.0%	\$ 231.9	51.6%	\$ 22.9
Power Solutions	57.3	7.4	4.7	4.3	7.6	1.7	44.9
Semiconductor Manufacturing Services	405.2	52.6	54.8	49.3	206.7	46.0	143.8
All other	2.1	0.3	0.5	0.5	2.8	0.6	(1.3)
	\$ 770.4	100.0%	\$ 111.1	100.0%	\$ 449.0	100.0%	\$ 210.3

Net sales were \$770.4 million for the year ended December 31, 2010, a \$210.3 million, or 37.6%, increase compared to \$560.1 million for the combined twelve-month period ended December 31, 2009, or \$111.1 million for the two-month period ended December 31, 2009 and \$449.0 million for the ten-month period ended October 25, 2009. This increase was primarily due to increases in our product sales volume driven by overall business recovery in the market, an improved product mix and a \$16.5 million favorable impact resulting from the appreciation of the Korean won against the U.S. dollar, which were partially offset by a decrease in average selling prices.

**Display Solutions.** Net sales from our Display Solutions segment were \$305.9 million for the year ended December 31, 2010, a \$22.9 million, or 8.1%, increase compared to \$282.9 million for the combined twelve-month period ended December 31, 2009, or \$51.0 million for the two-month period ended December 31, 2009 and \$231.9 million for the ten-month period ended October 25, 2009. The increase was primarily due to a 26.6% increase in sales volume. Sales volume increased as the consumer electronics industry began to recover from the economic slowdown and demand and shipments for certain consumer electronics products such as digital televisions, PCs and smart phones increased. This increase was partially offset by a 15.1% decrease in average selling prices, which was primarily from consumer price declines for LCD televisions, PC monitors and mobile devices.

**Power Solutions.** Net sales from our Power Solutions segment were \$57.3 million for the year ended December 31, 2010, a \$44.9 million, or 362.9%, increase compared to \$12.4 million for the combined twelve-month period ended December 31, 2009, or \$4.7 million for the two-month period ended December 31, 2009 and \$7.6 million for the ten-month period ended October 25, 2009. The increase was primarily due to a 173.5% increase in sales volume and a 69.2% increase in average selling prices driven by an improved product mix and higher demand for MOSFET products from existing and new customers as we grew this business.

**Semiconductor Manufacturing Services.** Net sales from our Semiconductor Manufacturing Services segment were \$405.2 million for the year ended December 31, 2010, a \$143.8 million, or 55.0%, increase compared to \$261.4 million for the combined twelve-month period ended December 31, 2009, or \$54.8 million for the two-month period ended December 31, 2009 and \$206.7 million for the ten-month period ended October 25, 2009. This increase was primarily due to a 52.1% increase in sales volume and 2.0% increase in average selling prices of eight-inch equivalent wafers driven by a strong market demand upside due to the recovery from the economic slowdown and an improved product mix of advanced process geometry.





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Total gross profit was \$243.6 million for the year ended December 31, 2010 compared to \$158.5 million for the combined twelve-month period ended December 31, 2009, or \$20.7 million for the two-month period ended December 31, 2009 and \$137.8 million for the ten-month period ended October 25, 2009, a \$85.0 million, or 53.6%, increase. Gross profit as a percentage of net sales for the year ended December 31, 2010 increased to 31.6% compared to 28.3% for the combined twelve-month period ended December 31, 2009. This increase in gross margin was primarily attributable to increased sales volume and a positive favorable impact on cost of sales in 2010 by the fresh-start inventory valuation, partially offset by lower average selling prices and a \$15.9 million unfavorable impact resulting from the appreciation of the Korean won against the U.S. dollar, which adversely impacted cost of sales to a greater extent than the favorable impact on net sales. Cost of sales for the year ended December 31, 2010 increased by \$125.3 million compared to the combined twelve-month period ended December 31, 2009. The increase in cost of sales was primarily due to a \$32.4 million unfavorable impact resulting from the appreciation of the Korean won against the U.S. dollar, a \$27.0 million increase in material costs, a \$40.0 million increase in labor costs resulting from the increased sales volume and the reinstatement of our salary levels from our company-wide voluntary salary reductions that were in effect in the first half of 2009, a \$16.9 million increase in subcontractor costs due to the increased sales volume and a \$22.4 million increase in overhead costs related to maintenance, repair and supplies expense incurred for maintaining higher levels of utilization of our manufacturing facilities.

***Display Solutions.*** Gross margin for our Display Solutions segment for the year ended December 31, 2010 increased to 25.6% compared to 24.9% for the combined twelve-month period ended December 31, 2009 primarily due to a 26.6% increase in sales volume and improved product mix offset in part by lower average selling prices. Cost of sales for the year ended December 31, 2010 increased by \$15.3 million compared to the combined twelve-month period ended December 31, 2009, primarily due to a \$12.6 million unfavorable impact resulting from the appreciation of the Korean won against the U.S. dollar and a \$10.2 million increase in labor costs resulting from the increased sales volume. The total increase was partially offset by the impact of the fresh-start step-up of our inventory valuation, which decreased by \$6.4 million compared to 2009.

***Power Solutions.*** Gross margin for our Power Solutions segment for the year ended December 31, 2010 decreased to 13.7% compared to 17.5% for the combined twelve-month period ended December 31, 2009. However, gross profit increased by \$5.7 million for the year ended December 31, 2010 compared to the combined twelve-month period ended December 31, 2009 due to increased sales volume and average selling prices. Cost of sales for the year ended December 31, 2010 increased by \$39.2 million compared to the combined twelve-month period ended December 31, 2009 primarily due to a \$9.9 million increase in material costs, a \$4.3 million increase in labor costs, a \$16.8 million increase in subcontractor costs due to increased sales volume, a \$3.9 million increase in overhead costs related to maintenance, repair and supplies expenses incurred for maintaining a higher level of utilization of our manufacturing facilities, and a \$2.5 million unfavorable impact resulting from the appreciation of the Korean won against the U.S. dollar.

***Semiconductor Manufacturing Services.*** Gross margin for our Semiconductor Manufacturing Services segment increased to 38.4% in the year ended December 31, 2010 from 31.6% in the combined twelve-month period ended December 31, 2009. This increase was primarily due to a decrease in unit cost of sales resulting from higher utilization of our manufacturing facilities and improved product mix. Gross profit increased by \$73.0 million for the year ended December 31, 2010 compared to the combined twelve-month period ended December 31, 2009 due to increased sales volume and average selling prices. Cost of sales for the year ended December 31, 2010 increased by \$70.8 million compared to the combined twelve-month period ended December 31, 2009, which was primarily attributable to a \$17.3 million unfavorable impact resulting from the appreciation of the Korean won against the U.S. dollar, a \$19.2 million increase in material costs and a \$25.5 million increase in

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labor costs resulting from the increased sales volume and the reinstatement of our salary level from our company-wide voluntary salary reductions that were in effect in the first half of 2009 and \$16.3 million increase in overhead costs related to maintenance, repair and supplies expense incurred for maintaining higher levels of utilization of our manufacturing facilities. The total increase was partially offset by the impact of the fresh-start step-up of our inventory valuation, which decreased by \$10.9 million compared to 2009.

**All Other.** Gross margin for All other remained the same as there was no cost of sales in either period.

***Operating Expenses***

**Selling, General and Administrative Expenses.** Selling, general, and administrative expenses were \$66.6 million, or 8.6% of net sales for the year ended December 31, 2010, compared to \$70.8 million, or 12.6% of net sales for the combined twelve-month period ended December 31, 2009. The decrease of \$4.2 million, or 5.9%, was primarily attributable to a \$15.3 million decrease in outside service expenses, primarily due to a decrease in restructuring-related professional fees and related expenses. These decreases were partially offset by a \$4.3 million unfavorable impact resulting from the appreciation of the Korean won against the U.S. dollar and a \$7.3 million increase in salaries and severance benefits resulting from the reinstatement of our salary levels from our company-wide voluntary salary reductions that were in effect in the first half of 2009.

**Research and Development Expenses.** Research and development expenses for the year ended December 31, 2010 were \$83.5 million, an increase of \$12.6 million, or 17.8%, from \$70.9 million for the combined twelve-month period ended December 31, 2009. This increase was due to a \$5.8 million unfavorable impact resulting from the appreciation of the Korean won against the U.S. dollar, a \$5.1 million increase in salaries and related expenses resulting from the reinstatement of our salary levels from our company-wide voluntary salary reductions that were in effect in the first half of 2009, a \$1.9 million increase in material costs, a \$1.1 million increase in outside service fees and a \$4.2 million increase in amortization expenses due to the write-up of our intangible assets in accordance with fresh-start accounting. These increases were partially offset by a \$5.3 million decrease in costs transferred from manufacturing to research and development expenses due to improved facilities utilization resulting from our higher net sales. Research and development expenses as a percentage of net sales were 10.8% in the year ended December 31, 2010, compared to 12.7% in the combined twelve-month period ended December 31, 2009.

**Restructuring and Impairment Charges.** Restructuring and impairment charges increased by \$1.6 million in the year ended December 31, 2010 compared to the combined twelve-month period ended December 31, 2009. Impairment charges of \$2.0 million recorded in the year ended December 31, 2010 were related to impairment of in-process research and development projects, which were accounted for as indefinite-lived intangible assets as part of the application of fresh-start accounting. Of the impairment charges of \$2.0 million, \$1.6 million of impairment charges were recognized for abandoned in-process research and development projects and \$0.4 million of impairment charges were recognized as a result of our annual impairment test of in-process research and development. Restructuring charges of \$0.4 million recorded in the combined twelve-month period ended December 31, 2009 were related to the closure of our research and development facilities in Japan.

***Operating Income from Continuing Operations***

As a result of the foregoing, operating income from continuing operations increased by \$75.0 million, or 458.5%, in the year ended December 31, 2010 compared to the combined twelve-month

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period ended December 31, 2009. As discussed above, the increase in operating income from continuing operations was primarily a result of the 37.6% increase in net sales over the prior year, partially offset by a \$12.6 million, or 17.8%, increase in research and development expenses during the same year. The increase in net sales for the year ended December 31, 2010 is mainly due to increased sales volume driven by overall business recovery in the market and an improved product mix, primarily in connection with our Semiconductor Manufacturing Services segment.

***Other Income (Expense)***

***Interest Expense, Net.*** Net interest expense was \$22.9 million during the year ended December 31, 2010, a decrease of \$9.5 million compared to \$32.4 million for the combined twelve-month period ended December 31, 2009. Interest expense for the year ended December 31, 2010 was incurred under our \$250.0 million principal amount senior notes issued on April 9, 2010 and partially incurred under our new term loan, which was fully repaid on April 9, 2010. Interest expense for the combined twelve-month period ended December 31, 2009 was mainly incurred under our \$750.0 million principal amount of notes and \$95.0 million senior secured credit facility. Upon our emergence from reorganization proceedings, our \$750.0 million notes were discharged pursuant to the reorganization plan. On November 6, 2009, \$33.3 million of our senior secured credit facility was repaid in cash and \$61.8 million was refinanced with the new term loan.

***Foreign Currency Gain (Loss), Net.*** Net foreign currency gain for the year ended December 31, 2010 was \$14.7 million, compared to net foreign currency gain of \$52.8 million for the combined twelve-month period ended December 31, 2009. A substantial portion of our net foreign currency gain or loss is non-cash translation gain or loss recorded for intercompany borrowings at our Korean subsidiary and is affected by changes in the exchange rate between the Korean won and the U.S. dollar. Foreign currency translation gain from our intercompany borrowings was included in determining our consolidated net income since the intercompany borrowings were not considered long-term investments in nature because management intended to repay these intercompany borrowings at their respective maturity dates. The Korean won to U.S. dollar exchange rates were 1,138.9:1 and 1,167.6:1 using the first base rate as of December 31, 2010 and December 31, 2009, respectively, as quoted by the Korea Exchange Bank.

***Others.*** Others for the year ended December 31, 2010 was comprised of dividend income from our investment in equity instruments and loss on valuation of derivatives which were designated as hedging instruments. The majority of the loss was loss on valuation of derivatives which represents either hedge ineffectiveness or components of changes in fair value of derivatives excluded from the assessments of hedge effectiveness.

***Income Tax Expenses.*** Income tax expenses for the year ended December 31, 2010 were \$8.4 million, compared to income tax expenses of \$9.2 million for the combined twelve-month period ended December 31, 2009. Income tax expenses for the year ended December 31, 2010 were comprised of \$0.6 million of current income tax expenses, net incurred in various jurisdictions in which our overseas subsidiaries are located, \$5.4 million of withholding taxes mostly accrued on intercompany interest payments, which would be utilized as foreign tax credits, but due to the uncertainty of utilization, full valuation allowance was recognized, \$2.5 million of additional recognition of liabilities for uncertain tax positions and a \$1.5 million income tax effect from the change of deferred tax assets less \$1.6 million reversal of liabilities for uncertain tax positions due to the lapse of the applicable statute of limitations.

**Table of Contents****Income from Discontinued Operations, Net of Taxes**

**Income from Discontinued Operations, Net of Taxes.** During 2008, we closed our Imaging Solutions business segment. During the combined twelve-month period ended December 31, 2009, we recognized net income of \$7.1 million relating to our discontinued operations, largely due to the sales of patents related to our closed Imaging Solutions business segment, which resulted in an \$8.3 million gain.

**Net Income (Loss)**

As a result of the foregoing, net income decreased by \$765.0 million in the year ended December 31, 2010 compared to the combined twelve-month period ended December 31, 2009. As discussed above, the decrease in net income was primarily due to \$804.6 million decrease in net reorganization gain directly associated with our reorganization proceedings and primarily reflects the discharge of liabilities of \$798.0 million, partially offset by an increase in operating income from continuing operations of \$75.0 million, or 458.5%, compared to the combined twelve-month period ended December 31, 2009.

**Results of Operations Comparison of Years Ended December 31, 2009 and December 31, 2008**

The following table sets forth consolidated results of operations for the two-month period ended December 31, 2009, the ten-month period ended October 25, 2009 and the year ended December 31, 2008:

	Successor Company		Predecessor Company				Change Amount
	Two-Month Period Ended December 31, 2009	% of net sales	Ten-Month Period Ended October 25, 2009	% of net sales (In millions)	Year Ended December 31, 2008	% of net sales	
	Amount		Amount		Amount		
Net sales	\$ 111.1	100.0%	\$ 449.0	100.0%	\$ 601.7	100.0%	\$ (41.6)
Cost of sales	90.4	81.4	311.1	69.3	445.3	74.0	(43.7)
Gross profit	20.7	18.6	137.8	30.7	156.4	26.0	2.1
Selling, general and administrative expenses	14.5	13.1	56.3	12.5	81.3	13.5	(10.5)
Research and development expenses	14.7	13.3	56.1	12.5	89.5	14.9	(18.6)
Restructuring and impairment charges			0.4	0.1	13.4	2.2	(12.9)
Operating income (loss) from continuing operations	(8.6)	(7.7)	25.0	5.6	(27.7)	(4.6)	44.1
Interest expense, net	(1.3)	(1.1)	(31.2)	(6.9)	(76.1)	(12.7)	43.7
Foreign currency gain (loss), net	9.3	8.4	43.4	9.7	(210.4)	(35.0)	263.2
Reorganization items, net			804.6	179.2			804.6
	8.1	7.3	816.8	181.9	(286.5)	(47.6)	1,111.5
Income (loss) from continuing operations before income taxes	(0.5)	(0.5)	841.8	187.5	(314.3)	(52.2)	1,155.5
Income tax expenses	1.9	1.8	7.3	1.6	11.6	1.9	(2.3)
Income (loss) from continuing operations	(2.5)	(2.2)	834.5	185.9	(325.8)	(54.2)	1,157.9
	0.5	0.5	6.6	1.5	(91.5)	(15.2)	98.6

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Income (loss) from discontinued operations, net of taxes

Net income (loss)	\$ (2.0)	(1.8)%	\$ 841.1	187.3%	\$ (417.3)	(69.4)%	\$ 1,256.4
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**Table of Contents***Net Sales*

	Successor Company		Predecessor Company		Year Ended		Change Amount
	Two-Month Period Ended		Ten-Month Period Ended		December 31, 2008		
	December 31, 2009		October 25, 2009		December 31, 2008		
	Amount	% of net sales	Amount	% of net sales	Amount	% of net sales	
	(In millions)						
Display Solutions	\$ 51.0	46.0%	\$ 231.9	51.6%	\$ 304.1	50.5%	\$ (21.2)
Power Solutions	4.7	4.3	7.6	1.7	5.4	0.9	6.9
Semiconductor Manufacturing Services	54.8	49.3	206.7	46.0	287.1	47.7	(25.7)
All other	0.5	0.5	2.8	0.6	5.0	0.8	(1.7)
	\$ 111.1	100.0%	\$ 449.0	100.0%	\$ 601.7	100.0%	\$ (41.6)

Net sales were \$111.1 million for the two-month period ended December 31, 2009 and \$449.0 million for the ten-month period ended October 25, 2009, or \$560.1 million in aggregate, a \$41.6 million, or 6.9%, decrease, compared to \$601.7 million in 2008. Net sales generated in our three operating segments during 2009 in aggregate were \$556.7 million, a decrease of \$39.9 million, or 6.7%, from 2008. This decrease was principally due to the impact of the depreciation of the Korean won against the U.S. dollar in the amount of \$17.6 million and a decrease in average selling prices of our products, both of which were partially offset by increases in product sales volume. Among our segments, net sales decreased for our Display Solutions and our Semiconductor Manufacturing Service segments which was offset in part by an increase in net sales from our Power Solutions segment.

**Display Solutions.** Net sales from Display Solutions were \$51.0 million for the two-month period ended December 31, 2009 and \$231.9 million for the ten-month period ended October 25, 2009, or \$282.9 million in aggregate, a \$21.2 million, or 7.0%, decrease from \$304.1 million for 2008. The decrease resulted from a 24.9% decrease in average selling prices, primarily from display driver products for LCD televisions, PC monitors and mobile devices. The reduction in average selling prices in 2009 resulted in part from reduced demand for consumer electronics products generally, and new products in particular, during the first half of 2009 as a result of the worldwide economic slowdown. These decreases in average selling prices were partially offset by a 24.6% increase in sales volume. Volume increased in the second half of 2009 as the consumer electronics industry began to recover from the economic slowdown as demand and shipments for consumer electronics products such as digital televisions, PCs, and smartphones increased.

**Power Solutions.** Net sales from Power Solutions were \$4.7 million for the two-month period ended December 31, 2009 and \$7.6 million for the ten-month period ended October 25, 2009, or \$12.4 million in aggregate, a \$6.9 million, or 127.6%, increase from \$5.4 million for 2008. The increase resulted from a 221.3% increase in sales volume, most of which was attributable to higher demand for MOSFET products driven by our existing and new customers. Such increases in volume were partially offset by a 29.4% decrease in average sales prices. We were able to attract new customers, largely due to MOSFET products utilized in high voltage technologies and computing solutions.

**Semiconductor Manufacturing Services.** Net sales from Semiconductor Manufacturing Services were \$54.8 million for the two-month period ended December 31, 2009 and \$206.7 million for the ten-month period ended October 25, 2009, or \$261.4 million in aggregate, a \$25.7 million, or 8.9%, decrease compared to net sales of \$287.1 million for 2008. This decrease was primarily due to a 0.5% decrease in sales volume and 3.4% decrease in average selling price of eight-inch equivalent wafers given decreased market demand for such products.

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**All other.** Net sales from All other were \$0.5 million for the two-month period ended December 31, 2009 and \$2.8 million for the ten-month period ended October 25, 2009, or \$3.3 million in aggregate compared to \$5.0 million for 2008. This decrease of \$1.7 million, or 33.6%, resulted from lower rental income due to the relocation of one of the lessees of one of our buildings.

**Net Sales by Geographic Region**

The following table sets forth our net sales by geographic region and the percentage of total net sales represented by each geographic region for the two-month period ended December 31, 2009, the ten-month period ended October 25, 2009 and the year ended December 31, 2008:

	Successor Company		Predecessor Company				Change Amount
	Two-Month Period Ended December 31, 2009		Ten-Month Period Ended October 25, 2009		Year Ended December 31, 2008		
	Amount	% of net sales	Amount	% of net sales	Amount	% of net sales	
	(In millions)						
Korea	\$ 62.2	56.0%	\$ 244.3	54.4%	\$ 301.0	50.0%	\$ 5.5
Asia Pacific	25.6	23.0	116.9	26.0	144.5	24.0	(2.0)
Japan	6.5	5.8	31.6	7.0	79.9	13.3	(41.8)
North America	14.9	13.4	48.5	10.8	61.3	10.2	2.0
Europe	1.9	1.7	7.7	1.7	14.9	2.5	(5.4)
	\$ 111.1	100.0%	\$ 449.0	100.0%	\$ 601.7	100.0%	\$ (41.6)

Net sales in Japan in 2009 declined as a percentage of total net sales principally as a result of declines in customer sales relating to electronic games due to the overall slowness in that market.

**Gross Profit**

	Successor Company		Predecessor Company				Change Amount
	Two-Month Period Ended December 31, 2009		Ten-Month Period Ended October 25, 2009		Year Ended December 31, 2008		
	Amount	% of net sales	Amount	% of net sales	Amount	% of net sales	
	(In millions)						
Display Solutions	\$ 8.7	17.1%	\$ 61.8	26.6%	\$ 57.4	18.9%	\$ 13.1
Power Solutions	0.7	15.5	1.4	18.8	(4.3)	(78.6)	6.4
Semiconductor Manufacturing Services	10.7	19.5	71.8	34.8	98.4	34.3	(15.9)
All other	0.5	100.0	2.8	100.0	4.9	97.3	(1.6)
	\$ 20.7	18.6%	\$ 137.8	30.7%	\$ 156.4	26.0%	\$ 2.1

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Total gross profit was \$20.7 million for the two-month period ended December 31, 2009 and \$137.8 million for the ten-month period ended October 25, 2009, or \$158.5 million in aggregate compared to \$156.4 million for 2008, a \$2.1 million, or 1.3%, increase. Gross margin, or gross profit as a percentage of net sales, in 2009 increased to 28.3% compared to 26.0% for the year ended December 31, 2008. This increase in gross margin was primarily attributable to a \$22.8 million

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favorable impact resulting from the depreciation of the Korean won against the U.S. dollar and an increase in sales volume. These increases were partially offset by lower average selling prices and the impact of a \$17.2 million increase in our cost of sales as a result of the write-up of our inventory in accordance with the principles of fresh-start accounting upon the consummation of our reorganization proceedings. Cost of sales for the combined twelve-month period ended December 31, 2009 decreased by \$43.7 million compared to 2008. The decreases in cost of sales were primarily due to a \$40.4 million favorable impact resulting from the depreciation of the Korean won against the U.S. dollar, a \$10.2 million decrease in labor costs, a \$9.6 million decrease in subcontractor costs and a \$3.2 million decrease in depreciation, which were partially offset by a \$6.4 million increase in material costs resulting from the increase in sales volume and a \$1.8 million increase of overhead costs. Gross margin for the two-month period ended December 31, 2009 was 18.6% compared to 30.7% for the ten-month period ended October 25, 2009. Gross margin was higher in the ten-month period ended October 25, 2009 compared to the two-month period ended December 31, 2009 principally due to a \$17.2 million one-time impact on cost of sales which is recorded in the two-month period ended December 31, 2009 associated with the step up of our inventory as a result of adoption of fresh-start accounting. As of December 31, 2009, \$0.7 million of the total increase in inventory valuation remained. We included the remaining increase in inventory valuation in cost of sales for the quarter ending March 31, 2010. As a result, we expect gross margin in future periods to return to historical levels, excluding foreign currency fluctuation impacts.

**Display Solutions.** Gross margin for Display Solutions for the combined twelve-month period ended December 31, 2009 improved to 24.9% compared to 18.9% for the year ended December 31, 2008 primarily due to a decrease in unit costs resulting from a 24.6% increase in sales volume compared to 2008 offset in part by lower average selling prices and the impact of the write-up of our inventory in accordance with fresh-start accounting. Cost of sales for the combined twelve-month period ended December 31, 2009 decreased by \$34.3 million compared to 2008, primarily due to a \$17.8 million favorable impact resulting from the depreciation of the Korean won against the U.S. dollar, a \$7.1 million decrease in labor costs, a \$8.2 million decrease in subcontractor costs and a \$3.8 million decrease in depreciation, which were partially offset by a \$3.8 million increase in material costs due to increased sales volume and a \$7.2 million increase resulting from the step-up of our inventory valuation as a result of our adoption of fresh-start accounting.

**Power Solutions.** Gross margin for Power Solutions for the combined twelve-month period ended December 31, 2009 improved to 17.5% compared to (78.6)% for the year ended December 31, 2008 primarily due to lower unit costs resulting from the 221.3% increase in sales volume offset in part by lower average selling prices and the impact of the write-up of our inventory in accordance with fresh-start accounting. Cost of sales for the combined twelve-month period ended December 31, 2009 increased by \$0.5 million compared to 2008, primarily due to a \$2.3 million increase in material costs and a \$1.1 million increase in overhead costs, which were partially offset by a \$0.7 million favorable impact resulting from the depreciation of the Korean won against the U.S. dollar. Gross margin was negative in 2008 as we first began operating the segment in late 2007 and had not yet achieved sales volumes required to generate a positive gross margin.

**Semiconductor Manufacturing Services.** Gross margin for Semiconductor Manufacturing Services decreased to 31.6% in the combined twelve-month period ended December 31, 2009 from 34.3% in the year ended December 31, 2008. This decrease was primarily due to an overall decrease in production volume and average selling prices in an aggregate amount of \$29.5 million, partially offset by a \$13.6 million favorable impact resulting from the depreciation of the Korean won against the U.S. dollar. Cost of sales for the combined twelve-month period ended December 31, 2009 decreased by \$9.8 million compared to 2008, which was primarily attributable to a \$21.9 million favorable impact resulting from the depreciation of the Korean won against the U.S. dollar, which was offset in part by a \$0.4 million increase in material costs and a \$10.9 million increase resulting from the step-up of our inventory valuation as a result of our adoption of fresh-start accounting.

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**All other.** Gross margin for All other for the combined twelve-month period ended December 31, 2009 increased to 100.0% from 97.3% for the year ended December 31, 2008. All net sales included in All other in 2009 represent rent revenues for which there is no cost of sales. For 2008, All other included limited revenue from unit processing which resulted in a gross margin of 97.3%.

***Operating Expenses***

***Selling, General and Administrative Expenses.*** Selling, general, and administrative expenses were \$70.8 million, or 12.6%, of net sales for the combined twelve-month period ended December 31, 2009 compared to \$81.3 million, or 13.5%, for 2008. The decrease of \$10.5 million, or 12.9%, from the prior-year period was attributable to a decrease of \$7.2 million due to the depreciation of the Korean won against the U.S. dollar and a decrease of \$3.6 million due to a reduction in headcount and a short-term decrease in salaries and related expenses in connection with our cost-reduction efforts in 2009 as well as a decrease in depreciation and amortization expenses of \$4.9 million. These decreases were partially offset by a \$6.1 million increase in outside service expenses.

***Research and Development Expenses.*** Research and development expenses for the combined twelve-month period ended December 31, 2009 were \$70.9 million, a decrease of \$18.6 million, or 20.8%, from \$89.5 million for the year ended December 31, 2008. This decrease was due to the depreciation of the Korean won against the U.S. dollar of \$8.5 million, a \$3.2 million decrease in salaries and related expenses due to lower headcount and our short-term decrease in salaries. Through our cost reduction initiatives, material costs decreased by \$4.8 million and outside service fees decreased by \$2.6 million. The remaining decrease in research and development expenses was attributable to reductions in various overhead expenses. Research and development expenses as a percentage of net sales were 12.7% in 2009, compared to 14.9% in 2008.

***Restructuring and Impairment Charges.*** Restructuring and impairment charges decreased by \$12.9 million in the combined twelve-month period ended December 31, 2009 compared to the year ended December 31, 2008. Restructuring charges of \$0.4 million recorded in the ten-month period ended October 25, 2009 were related to the closure of one of our research and development facilities in Japan. Restructuring charges of \$13.4 million for the year ended December 31, 2008 reflected an impairment charge of \$14.2 million as a result of the significant reduction in net sales attributable to our Display Solutions products, offset in part by an \$0.9 million reversal of unused accrued restructuring charges from prior periods.

***Operating Income (Loss) from Continuing Operations***

As a result of the foregoing, operating income (loss) from continuing operations increased by \$44.1 million in the combined twelve-month period ended December 31, 2009 compared to a loss of \$27.7 million in the year ended December 31, 2008. As discussed above, the increase in operating income from continuing operations was primarily a result of the decreases in selling, general and administrative expenses and research and development expenses, which are primarily due to the depreciation of the Korean won against the U.S. dollar, a decrease in depreciation and amortization expenses, and our cost reduction efforts to enhance our operating efficiency and improve our profitability. In connection with cost reduction, we implemented several restructuring plans including headcount reductions and a short-term decrease in salaries and related expenses, which had a positive effect on operating income.

***Other Income (Expense)***

***Interest Expense, net.*** Net interest expense was \$32.4 million during the combined twelve-month period ended December 31, 2009, a decrease of \$43.7 million compared to \$76.1 million for the year ended December 31, 2008. Interest expense was incurred under our \$750 million principal

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amount of notes and our senior secured credit facility. From June 12, 2009, the date of our initial reorganization filing, to October 25, 2009, we did not accrue interest expenses related to our notes, which were categorized as liabilities subject to compromise. Upon our emergence from our reorganization proceedings, our \$750.0 million notes were discharged pursuant to the reorganization plan. Net interest expense in 2008 included a write-off of remaining debt issuance costs of \$12.3 million related to our notes since we were not compliant with certain financial covenants under the terms of our notes and therefore, amounts outstanding were reclassified as current portion of long-term debt in our balance sheet as of December 31, 2008.

***Foreign Currency Gain (Loss), net.*** Net foreign currency gain for the combined twelve-month period ended December 31, 2009 was \$52.8 million, compared to net foreign exchange loss of \$210.4 million for the year ended December 31, 2008. A substantial portion of our net foreign currency gain or loss is non-cash translation gain or loss recorded for intercompany borrowings at our Korean subsidiary and is affected by changes in the exchange rate between the Korean won and the U.S. dollar. Foreign currency translation gain from the intercompany borrowings was included in determining our consolidated net income since the intercompany borrowings were not considered long-term investments in nature because management intended to repay these intercompany borrowings at their respective maturity dates. The Korean won to U.S. dollar exchange rates were 1,167.6:1 and 1,262.0:1 using the first base rate as of December 31, 2009 as quoted by the Korea Exchange Bank and the noon buying rate in effect as of December 31, 2008 as quoted by the Federal Reserve Bank of New York, respectively. The exchange rate quotation from the Federal Reserve Bank was available on or before December 31, 2008.

***Reorganization items, net.*** Net reorganization gain of \$804.6 million in the ten-month period ended October 25, 2009 represents the impact of non-cash reorganization income and expense items directly associated with our reorganization proceedings and primarily reflects the discharge of liabilities of \$798.0 million. Net reorganization gain also includes professional fees, the revaluation of assets and the write-off of debt issuance costs. These items are related primarily to our reorganization proceedings, and are not the result of our current operations. Accordingly, we do not expect these items to continue on an ongoing basis. Further information on reorganization related items is discussed in note 5 to the consolidated financial statements of MagnaChip Semiconductor Corporation included elsewhere in this prospectus.

***Income Tax Expenses***

***Income Tax Expenses.*** Income tax expenses for the combined twelve-month period ended December 31, 2009 were \$9.2 million, compared to income tax expenses of \$11.6 million for the year ended December 31, 2008. Income tax expense for 2009 was comprised of \$6.7 million of withholding taxes mostly paid on intercompany interest payments, \$0.8 million of current income taxes incurred in various jurisdictions in which we operate and a \$1.7 million income tax effect from the change of deferred tax assets. Due to the uncertainty of the utilization of foreign tax credits, we did not recognize these withholding taxes as deferred tax assets.

***Income from discontinued operations, net of taxes***

***Income from discontinued operations, net of taxes.*** During 2008, we closed our Imaging Solutions business segment, recognizing a net loss of \$91.5 million from discontinued operations, of which \$15.9 million was from negative gross margin, \$37.5 million was from research and development cost and \$34.2 million was attributable to restructuring and impairment charges incurred during the third quarter of 2008. During the combined twelve-month period ended December 31, 2009, we recognized net income of \$7.1 million relating to our discontinued operations, largely due to the sale of patents related to our closed Imaging Solutions business segment, which resulted in a \$8.3 million gain.

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***Net Income (Loss)***

As a result of the foregoing, net income increased by \$1,256.4 million in the combined twelve-month period ended December 31, 2009 compared to a loss of \$417.3 million in the year ended December 31, 2008. As discussed above, the increase in net income was primarily a result of our emergence from reorganization proceedings. Upon emergence from reorganization proceedings, a substantial majority of our indebtedness was discharged and recorded as reorganization gain of \$804.6 million and such discharged liabilities resulted in a reduction in interest expense as well in the combined twelve-month period ended December 31, 2009. In addition, for the year ended December 31, 2008, a substantial foreign currency loss of \$210.4 million due to the depreciation of the Korean won against the U.S. dollar and a net loss of \$91.5 million from our closed Imaging Solutions Business segment were recorded.

**Table of Contents****Periodic Results of Operations**

The following tables set forth unaudited selected consolidated financial data for each of the quarters in the eight-quarter period ended December 31, 2010. The information for each of these periods has been prepared on the same basis as the audited financial statements included elsewhere in this prospectus and, in the opinion of management, includes adjustments for normal recurring items, necessary for the fair statement of the results of operations for these periods. This data should be read in conjunction with our audited consolidated financial statements and related notes included elsewhere in this prospectus. These operating results are not necessarily indicative of our operating results for any future period.

	Successor(1)				Two-Month Period Ended December 31, 2009**	One-Month Period Ended October 25, 2009*	Predecessor(1)		
	Three Months Ended			Three Months Ended					
	December 31, 2010*	September 30, 2010*	June 30, 2010*	March 31, 2010*		October 25, 2009*	September 27, 2009*	June 28, 2009*	March 29, 2009*
<b>Statements of Operations Data:</b>									
Net sales	\$ 186.8	\$ 209.4	\$ 194.7	\$ 179.5	\$ 111.1	\$ 51.2	\$ 156.6	\$ 139.7	\$ 101.5
Cost of sales	126.4	140.1	130.2	130.1	90.4	34.8	104.5	91.4	80.6
Gross profit	60.4	69.3	64.5	49.4	20.7	16.5	52.2	48.3	20.9
Selling, general and administrative expenses	16.6	16.2	16.0	17.9	14.5	5.5	17.2	18.4	15.3
Research and development expenses	19.3	23.1	20.5	20.5	14.7	5.2	17.7	16.2	17.0
Restructuring and impairment charges	1.0	0.4	0.3	0.3				0.4	0.1
Operating income (loss) from continuing operations	23.5	29.6	27.8	10.6	(8.6)	5.8	17.3	13.4	(11.4)
Interest expense, net	(7.0)	(7.3)	(6.6)	(2.0)	(1.3)	(1.0)	(2.6)	(12.8)	(14.7)
Foreign currency gain (loss), net		41.4	(48.3)	21.6	9.3	7.4	45.4	30.8	(40.2)
Reorganization items, net						809.0	(4.1)	(0.3)	
Others		0.3	(1.0)	(0.1)					
	(7.0)	34.4	(55.8)	19.5	8.1	815.4	38.7	17.6	(54.9)
Income (loss) from continuing operations before income taxes	16.5	64.0	(28.0)	30.1	(0.5)	821.2	56.0	31.0	(66.3)
Income tax expenses (benefits)	4.2	2.5	2.7	(1.0)	1.9	(0.1)	2.4	2.4	2.6
Income (loss) from continuing operations	12.3	61.5	(30.7)	31.1	(2.5)	821.3	53.5	28.6	(68.9)
Income (loss) from discontinued operations, net of taxes					0.5	(0.6)	8.9	(1.0)	(0.8)
Net income (loss)	\$ 12.3	\$ 61.5	\$ (30.7)	\$ 31.1	\$ (2.0)	\$ 820.7	\$ 62.4	\$ 27.6	\$ (69.7)
<b>Supplemental Data (unaudited):</b>									
Adjusted EBITDA(2)	\$ 39.7	\$ 45.7	\$ 43.8	\$ 28.7	\$ 22.1	\$ 10.6	\$ 34.5	\$ 29.3	\$ 2.3
Adjusted Net Income (Loss)(3)	17.4	26.2	25.7	19.9	13.3	6.9	20.4	5.0	(22.9)

\* Derived from our unaudited interim consolidated financial statements.

\*\* Derived from our audited consolidated financial statements.

(1) As of October 25, 2009, the fresh-start adoption date, we adopted fresh-start accounting for our consolidated financial statements. Because of the emergence from reorganization proceedings and adoption of fresh-start accounting, the historical financial information for periods after October 25, 2009 is not fully comparable to periods before October 25, 2009. See Management's Discussion and Analysis of Financial Condition and Results of Operations Recent Changes to Our Business.





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- (2) We define Adjusted EBITDA as net income (loss) less income (loss) from discontinued operations, net of taxes, adjusted to exclude (i) depreciation and amortization associated with continuing operations, (ii) interest expense, net, (iii) income tax expenses (benefits), (iv) restructuring and impairment charges, (v) other restructuring charges, (vi) abandoned IPO expenses, (vii) reorganization items, net, (viii) the increase in cost of sales resulting from the fresh-start accounting inventory step-up, (ix) equity-based compensation expense, (x) foreign currency gain (loss), net and (xi) derivative valuation gain (loss), net. A reconciliation of net income (loss) to Adjusted EBITDA is as follows:

	Successor Three Months Ended				Two-Month Period Ended	One-Month Period Ended	Predecessor Three Months Ended		
	December 31, 2010	September 30, 2010	June 30, 2010*	March 31, 2010*	December 31, 2009**	October 25, 2009*	September 27, 2009*	June 28, 2009*	March 29, 2009*
Net income (loss)	\$ 12.3	\$ 61.5	\$ (30.7)	\$ 31.1	\$ (2.0)	\$ 820.7	\$ 62.4	\$ 27.6	\$ (69.7)
Less: Income (loss) from discontinued operations, net of taxes					0.5	(0.6)	8.9	(1.0)	(0.8)
Income (loss) from continuing operations	12.3	61.5	(30.7)	31.1	(2.5)	821.3	53.5	28.6	(68.9)
Adjustments:									
Depreciation and amortization associated with continuing operations	14.1	14.3	14.5	15.5	11.2	3.6	11.9	11.7	10.4
Interest expense, net	7.0	7.3	6.6	2.0	1.3	1.0	2.6	12.8	14.7
Income tax expenses (benefits)	4.2	2.5	2.7	(1.0)	1.9	(0.1)	2.4	2.4	2.6
Restructuring and impairment charges(a)	1.0	0.4	0.3	0.3				0.4	0.1
Other restructuring charges(b)						1.1	5.3	3.7	3.1
Reorganization items, net(c)						(809.0)	4.1	0.3	
Inventory step-up(d)				0.9	17.2				
Equity-based compensation expense(e)	1.2	1.3	1.3	1.5	2.2		0.1	0.1	0.1
Foreign currency loss (gain), net(f)		(41.4)	48.3	(21.6)	(9.3)	(7.4)	(45.4)	(30.8)	40.2
Derivative valuation loss (gain), net(g)		(0.3)	1.0	0.1					
Adjusted EBITDA	\$ 39.7	\$ 45.7	\$ 43.8	\$ 28.7	\$ 22.1	\$ 10.6	\$ 34.5	\$ 29.3	\$ 2.3

- (a) This adjustment is comprised of all items included in the restructuring and impairment charges line item on our consolidated statements of operations, and eliminates the impact of restructuring and impairment charges related to (i) for 2010, impairment charges of an aggregate of \$2.0 million recorded, of which an aggregate of \$1.6 million of impairment charges were recognized for abandoned in-process research and development projects and an aggregate of \$0.4 million of impairment charges were recognized as a result of an annual impairment test of in-process research and development, accounted for as indefinite-lived intangible assets as part of the application of fresh-start accounting, and (ii) for the three months ended June 28 and March 29, 2009, termination benefits and other related costs in connection with the closure of one of our research and development facilities in Japan.
- (b) This adjustment relates to certain restructuring charges that are not included in the restructuring and impairment charges line item on our consolidated statements of operations. These items are included in selling, general and administrative expenses in our consolidated statements of operations. These charges are restructuring-related professional fees and related expenses incurred during each period.
- (c) This adjustment eliminates the impact of largely non-cash reorganization income and expense items directly associated with our reorganization proceedings from our ongoing operations including, among others, professional fees, the revaluation of assets, the effects of the Chapter 11 reorganization plan and fresh-start accounting principles and the write-off of debt issuance costs. These items are comprised of the following: (i) for the one-month period ended October 25, 2009, our predecessor's gain recognized upon the effectiveness of the reorganization plan which was primarily composed of debt discharge gains and net of reorganization related professional fees and other charges, and (ii) for three months ended September 27, 2009 and June 28, 2009, professional fees incurred in connection with our reorganization proceedings.
- (d) This adjustment eliminates the one-time impact on cost of sales associated with the write-up of our inventory in accordance with the principles of fresh-start accounting upon consummation of the Chapter 11 reorganization.

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- (e) This adjustment eliminates the impact of non-cash equity-based compensation expenses.
- (f) This adjustment eliminates the impact of non-cash foreign currency translation associated with intercompany debt obligations and foreign currency denominated receivables and payables, as well as the cash impact of foreign currency transaction gains or losses on collection of such receivables and payment of such payables.

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- (g) This adjustment eliminates the impact of gain or loss recognized in income on derivatives, which represents hedge ineffectiveness or derivatives value changes excluded from the risk being hedged. We enter into derivative transactions to mitigate foreign exchange risks. As our derivative transactions are limited to a certain portion of our expected cash flows denominated in USD, and we do not enter into derivative transactions for trading or speculative purposes, we do not believe that these charges or gains are indicative of our core operating performance.
- (3) We define Adjusted Net Income as net income (loss) less income (loss) from discontinued operations, net of taxes, excluding (i) restructuring and impairment charges, (ii) other restructuring charges, (iii) abandoned IPO expenses, (iv) reorganization items, net, (v) the increase in cost of sales resulting from the fresh-start accounting inventory step-up, (vi) equity-based compensation expense, (vii) amortization of intangibles associated with continuing operations, (viii) foreign currency gain (loss) and (ix) derivative valuation gain (loss), net. The following table summarizes the adjustments to net income (loss) that we make in order to calculate Adjusted Net Income for the periods indicated:

	Successor				Two-Month Period Ended December 31, 2009**	One-Month Period Ended October 25, 2009*	Predecessor		
	Three Months Ended		Three Months Ended						
	December 31, 2010	September 30, 2010	June 30, 2010*	March 31, 2010*		October 25, 2009*	September 27, 2009*	June 28, 2009*	March 29, 2009*
Net income (loss)	\$ 12.3	\$ 61.5	\$ (30.7)	\$ 31.1	\$ (2.0)	\$ 820.7	\$ 62.4	\$ 27.6	\$ (69.7)
Less: Income (loss) from discontinued operations, net of taxes					0.5	(0.6)	8.9	(1.0)	(0.8)
Income (loss) from continuing operations	12.3	61.5	(30.7)	31.1	(2.5)	821.3	53.5	28.6	(68.9)
Adjustments:									
Restructuring and impairment charges(a)	1.0	0.4	0.3	0.3				0.4	0.1
Other restructuring charges(b)						1.1	5.3	3.7	3.1
Reorganization items, net(c)						(809.0)	4.1	0.3	
Inventory step-up(d)				0.9	17.2				
Equity-based compensation expense(e)	1.2	1.3	1.3	1.5	2.2		0.1	0.1	0.1
Amortization of intangibles associated with continuing operations(f)	2.9	4.7	5.7	7.7	5.6	0.9	2.8	2.7	2.4
Foreign currency loss (gain), net(g)		(41.4)	48.3	(21.6)	(9.3)	(7.4)	(45.4)	(30.8)	40.2
Derivative valuation loss (gain), net(h)		(0.3)	1.0	0.1					
Adjusted Net Income (Loss)	\$ 17.4	\$ 26.2	\$ 25.7	\$ 19.9	\$ 13.3	\$ 6.9	\$ 20.4	\$ 5.0	\$ (22.9)

- (a) This adjustment is comprised of all items included in the restructuring and impairment charges line item on our consolidated statements of operations, and eliminates the impact of restructuring and impairment charges related to (i) for 2010, impairment charges of an aggregate of \$2.0 million recorded, of which an aggregate of \$1.6 million of impairment charges were recognized for abandoned in-process research and development projects and an aggregate of \$0.4 million of impairment charges were recognized as a result of an annual impairment test of in-process research and development, accounted for as indefinite-lived intangible assets as part of the application of fresh-start accounting and (ii) for the three months ended June 28, 2009 and March 29, 2009, termination benefits and other related costs in connection with the closure of one of our research and development facilities in Japan.
- (b) This adjustment relates to certain restructuring charges that are not included in the restructuring and impairment charges line item on our consolidated statements of operations. These items are included in selling, general and administrative expenses in our consolidated statements of operations. These charges are restructuring-related professional fees and related expenses incurred during each period.
- (c) This adjustment eliminates the impact of largely non-cash reorganization income and expense items directly associated with our reorganization proceedings from our ongoing operations including, among others, professional fees, the revaluation of assets, the effects of the Chapter 11 reorganization plan and fresh-start accounting principles and the write-off of debt issuance costs. These items are comprised of the following: (i) for the one-month period ended October 25, 2009, our predecessor's gain recognized upon the effectiveness of the reorganization plan which was primarily composed of debt discharge gains and net of reorganization related

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professional fees and other charges, and (ii) for three months ended September 27, 2009 and June 28, 2009, professional fees incurred in connection with our reorganization proceedings.

- (d) This adjustment eliminates the one-time impact on cost of sales associated with the write-up of our inventory in accordance with the principles of fresh-start accounting upon consummation of the Chapter 11 reorganization.

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- (e) This adjustment eliminates the impact of non-cash equity-based compensation expenses. Although we expect to incur non-cash equity-based compensation expenses in the future, we believe that analysts and investors will find it helpful to review our operating performance without the effects of these non-cash expenses, as supplemental information.
- (f) This adjustment eliminates the non-cash impact of amortization expense for intangible assets created as a result of the acquisition accounting treatment of the Original Acquisition and other subsequent acquisitions, and from the application of fresh-start accounting in connection with the reorganization proceedings.
- (g) This adjustment eliminates the impact of non-cash foreign currency translation associated with intercompany debt obligations and foreign currency denominated receivables and payables, as well as the cash impact of foreign currency transaction gains or losses on collection of such receivables and payment of such payables.
- (h) This adjustment eliminates the impact of gain or loss recognized in income on derivatives, which represents hedge ineffectiveness or derivatives value changes excluded from the risk being hedged. We enter into derivative transactions to mitigate foreign exchange risks. As our derivative transactions are limited to a certain portion of our expected cash flows denominated in USD, and we do not enter into derivative transactions for trading or speculative purposes, we do not believe that these charges or gains are indicative of our core operating performance.

Net sales increased 37.7% from the three months ended March 29, 2009 to the three months ended June 28, 2009 partially due to the fact that the first quarter is traditionally a seasonally slow quarter for us due to reduced demand for consumer products after the end of the holiday season. Our net sales increased 12.1% from the three months ended June 29, 2009 to the three months ended September 27, 2009, primarily as a result of increased demand as the consumer electronics industry began to recover from the economic slowdown. Our net sales for the combined three-month period ended December 31, 2009 increased by 3.6% from the three months ended September 27, 2009 due to increased market demand which overcame our seasonal weakness. Our net sales for the three months ended March 31, 2010 increased by 10.6% from the combined three-month period ended December 31, 2009 as the overall recovery from the economic slowdown had a greater impact than our typical seasonal weakness. Our net sales for the three months ended June 30, 2010 increased by 8.5% from the three months ended March 31, 2010 due to improved product mix and increased market demand as the consumer electronics industry continued to recover from the economic slowdown. Our net sales for the three months ended September 30, 2010 increased by 7.6% from the three months ended June 30, 2010, primarily due to improved product mix and increased market demand for Semiconductor Manufacturing Services and Power Solutions products. Our net sales for the three months ended December 31, 2010 decreased by 10.8% from the three months ended September 30, 2010, primarily due to decreased market demand for Semiconductor Manufacturing Services and Display Solutions products as a result of our customers' efforts to reduce their inventory levels.

Gross margin increased to 34.6% and 33.3% in the three months ended June 28, 2009 and September 27, 2009, respectively, from 20.6% in the three months ended March 29, 2009. The increase was primarily related to an increase in sales volume resulting from increased demand in connection with the global economic recovery and the impact of our cost reduction efforts. Gross margin in the combined three-month period ended December 31, 2009 decreased primarily due to a \$17.2 million unfavorable impact which resulted from the write-up of our inventory in accordance with the principles of fresh-start accounting upon our emergence from reorganization proceedings. Gross margin in the three months ended March 31, 2010 improved as compared to the combined three-month period ended December 31, 2009 as the unfavorable impact from the inventory write-up of our inventory was limited to \$0.9 million which had not yet been recognized as of December 31, 2009. Gross margin increased to 33.1% in the three months ended June 30, 2010 from 27.5% in the three months ended March 31, 2010. The increase was primarily due to increased sales volume and improved utilization of our manufacturing facilities. Gross margin was 33.1% as a percent of revenue in the three months ended September 30, 2010, and remained the same as the three months ended June 30, 2010. Gross margin decreased to 32.3% in the three months ended December 31, 2010 from 33.1% in the three months ended September 30, 2010. The decrease was primarily due to decreased sales volume resulting from our customers' efforts to reduce their inventory levels and lower utilization of our manufacturing facilities.

Selling, general and administrative expenses for the three months ended June 28, 2009 and September 27, 2009 increased compared to the three months ended March 29, 2009 primarily due to

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the increase in outside service fees for restructuring-related professional fees and related expenses. Selling, general and administrative expenses for the combined three-month period ended December 31, 2009 increased compared to the three months ended September 27, 2009 due to an increase in salaries resulting from incentive payments made to our employees following our successful emergence from our reorganization proceedings and an increase in amortization expenses resulting from the write-up of certain intangible assets in accordance with the application of fresh-start accounting. Selling, general and administrative expenses for the three months ended June 30, 2010 decreased compared to the three months ended March 31, 2010 primarily due to decreases in depreciation and amortization as amortization of certain intangible assets was completed in April 2010. Selling, general and administrative expenses remained relatively constant over the quarters ended December 31, 2010, September 30, 2010 and June 30, 2010.

Research and development expenses remained relatively constant in absolute dollars over the eight quarter period. Research and development expense as a percentage of net sales was 16.7% in the three months ended March 29, 2009, which was higher than other quarters due to the substantially lower net sales in the three months ended March 29, 2009.

Restructuring and impairment charges for the three months ended June 28, 2009 and March 29, 2009, were related to termination benefits and other related costs in connection with the closure of one of our research and development facilities in Japan. Restructuring and impairment charges for the three months ended December 31, 2010, September 30, 2010, June 30, 2010 and March 31, 2010 were related to impairment of in-process research and development projects in each period, accounted for as indefinite-lived intangible assets as part of the application of fresh-start accounting.

Interest expense, net, decreased in the three months ended September 27, 2009 as we did not accrue for interest expense related to our \$750.0 million notes from June 12, 2009, the date of our initial reorganization filing, to October 25, 2009, as they were categorized as liabilities subject to compromise. These notes were discharged pursuant to the reorganization plan upon our emergence from our reorganization proceedings. As a result of our April 2010 senior notes offering and repayment of our new term loan, our interest expense, net, for the three months ended June 30, 2010 increased compared to the three months ended March 31, 2010. Interest expenses for the three months ended September 30, 2010 increased compared to the three months ended June 30, 2010 as interest for the senior notes was fully recognized during the period. Interest expenses for the three months ended December 31, 2010 remained relatively constant compare to the three months ended September 30, 2010.

A substantial portion of our net foreign currency gain or loss is non-cash translation gain or loss recorded for intercompany borrowing at our Korean subsidiary and is affected by changes in the exchange rate between Korean won and the U.S. dollar. During the three months ended March 29, 2009 and the three months ended June 30, 2010, foreign currency loss was recognized due to the depreciation of the Korean won against the U.S. dollar. During the three months ended June 28, 2009, the three months ended September 27, 2009, the combined three-month period ended December 31, 2009, the three months ended March 31, 2010, and the three months ended September 30, 2010, foreign currency gains have been recognized due to the appreciation of the Korean won against the U.S. dollar. During the three months ended December 31, 2010, the foreign exchange rate between Korean won and the U.S. dollar remained relatively constant.

Reorganization items, net, were incurred from our reorganization proceedings, implementation of our plan of reorganization, and the adoption of fresh-start reporting, and consisted mainly of the discharge of liabilities subject to compromise.

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Others for each quarter in the year ended December 31, 2010 were comprised of dividend income from our investment in equity instruments and loss on valuation of derivatives, which represents either hedge ineffectiveness or components of changes in fair value of derivatives excluded from the assessments of hedge effectiveness.

Income tax expense for 2009 and 2010 was primarily comprised of withholding taxes paid on intercompany interest payments, current income taxes incurred in various jurisdictions in which we operate, liabilities for uncertain tax positions and the income tax effect from the change of deferred tax assets. Income tax benefits in the three months ended March 31, 2010 were primarily derived from the reversal of liabilities for uncertain tax positions due to the lapse of the applicable statute of limitations. Income tax expenses for the three months ended December 31, 2010 increased compared to the three months ended September 30 and June 30, 2010 primarily due to increase in liabilities for uncertain tax positions.

Income (loss) from discontinued operations during 2009 related to our former Imaging Solutions business segment. Income from discontinued operations in the three months ended September 27, 2009 was primarily derived from the sale of patents related to Imaging Solutions business segment.

## **Liquidity and Capital Resources**

Our principal capital requirements are to invest in research and development and capital equipment, to make debt service payments and to fund working capital needs. We calculate working capital as current assets less current liabilities.

Our principal sources of liquidity are our cash and cash equivalents, our cash flows from operations and our financing activities, including \$46.1 million of net proceeds from the \$250 million aggregate principal amount senior notes offering. The principal purpose of the senior notes offering was to fund a \$130.7 million distribution to our unitholders. Most of our current equity holders are former creditors and the distribution allowed us to provide a return to creditors that supported us during our reorganization proceedings. The distribution to our unitholders was approved by our board of directors and was not required due to any contractual or other obligation. In addition to the distribution, we used the proceeds of the senior notes offering to increase our cash reserves and pay down current debt that was accruing interest at a higher rate than the notes. We funded the distribution and other uses of proceeds through the senior notes offering because we believed that the debt market at the time would be receptive to the offering and because we could affect a debt offering faster than other forms of financing, including equity financing. Although we currently anticipate these sources of liquidity will be sufficient to meet our cash needs through the next twelve months, our operating cash flow was negative for the two-month period ended December 31, 2009 as well as for 2008 and 2007 and we may require or choose to obtain additional financing. Our ability to obtain financing will depend on, among other things, our business plans, operating performance, and the condition of the capital markets at the time we seek financing and could be adversely impacted by our 2009 reorganization proceedings and our non-compliance with bank covenants that preceded the filing. We cannot assure you that additional financing will be available to us on favorable terms when required, or at all. The current rating of our senior notes is B2 by Moody's and B+ by Standard and Poors, both of which are below investment grade. Any lowering of these ratings would adversely impact our ability to raise additional debt financing and increase the cost of any such financing that may be obtained. If we raise additional funds through the issuance of equity, equity-linked or debt securities, those securities may have rights, preferences or privileges senior to the rights of our common stock, and our stockholders may experience dilution. If we need to raise additional funds in the future and are unable to do so or obtain additional financing on unfavorable terms in the future, it is possible we would have to limit certain planned activities including sales and marketing and research and development activities. As of



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December 31, 2010, our cash and cash equivalents balance was \$172.2 million, a \$107.2 million increase, compared to \$64.9 million as of December 31, 2009. The increase resulted from \$106.4 million of cash inflow provided by operating activities and \$42.5 million of cash inflow provided by financing activities, which was offset by \$43.7 million cash outflow used in investing activities. As of December 31, 2009, our cash and cash equivalents balance was \$64.9 million, a \$49.1 million increase from our cash, cash equivalents and restricted cash balance of \$15.8 million as of December 31, 2008. The increase in cash and cash equivalents for the combined twelve-month period ended December 31, 2009 was primarily attributable to a cash inflow of \$41.5 million from operating activities, coupled with a cash inflow of \$11.5 million from investing activities.

***Cash Flows from Operating Activities***

Cash inflows generated by operating activities totaled \$106.4 million for the year ended December 31, 2010, compared to \$41.5 million of cash provided by operating activities in the combined twelve-month period ended December 31, 2009. The increase was primarily attributable to an increase in gross profit of \$85.0 million resulting from higher net sales. The net operating cash inflow for the year ended December 31, 2010 reflects our net income of \$74.1 million adjusted by non-cash charges of \$73.4 million, which mainly consisted of depreciation and amortization charges and gain on foreign currency translation, net, which was partially offset by an increase in net operating assets of \$41.1 million.

Cash flows generated by operating activities totaled \$41.5 million in the combined twelve-month period ended December 31, 2009, compared to \$18.4 million of cash used in operating activities in 2008. This increase in cash flows was primarily attributable to income from continuing operations which improved due to the restructuring of our operations and our reorganization plan as described above. The net operating cash inflow for the combined twelve-month period ended December 31, 2009 principally reflected our net income of \$839.1 million adjusted by non-cash charges of \$799.4 million, which mainly consisted of non-cash reorganization items derived from our reorganization plan.

Our working capital balance as of December 31, 2010 was \$273.6 million compared to \$128.5 million as of December 31, 2009. The \$145.1 million increase was primarily attributable to a \$107.2 million increase in cash and cash equivalents provided by operating activities and financing activities, a \$44.8 million increase in accounts receivable due to an increase in net sales, which was partially offset by a \$7.5 million increase in other accounts payable associated with capital expenditures and a \$10.5 million increase in accrued expenses mainly due to an increase in accrued interest expenses incurred under our \$250.0 million principal amount of senior notes.

Our working capital balance as of December 31, 2009 was \$128.5 million, compared to negative \$814.5 million as of December 31, 2008. The significant increase in our working capital balance was principally due to the discharge of \$750.0 million in debt recorded in current liabilities resulting from our reorganization plan in 2009 as well as cash generated from operations and investing activities.

***Cash Flows from Investing Activities***

Cash flows used in investing activities totaled \$43.7 million in the year ended December 31, 2010, compared to \$11.5 million of cash generated by investing activities in the combined twelve-month period ended December 31, 2009. The increase was primarily due to an increase in capital expenditures of \$35.0 million. In 2009, cash of \$11.4 million was released from restriction in connection with our reorganization plan, which contributed to cash flows generated by investing activities.

Cash flows generated by investing activities totaled \$11.5 million in the combined twelve-month period ended December 31, 2009, compared to \$39.6 million of cash used in investing activities in the

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2008. In 2009, we had a decrease in capital expenditures of \$20.5 million from \$29.7 million in 2008 to \$9.2 million in the combined twelve-month period ended December 31, 2009. In 2008, cash of \$11.8 million was restricted pursuant to the terms of a forbearance agreement in relation to short-term borrowings; in 2009, it was released from restriction in connection with our reorganization plan. Cash flow from investing activities in 2009 also included cash proceeds of \$9.4 million from the sale of intangible assets.

### ***Cash Flows from Financing Activities***

Cash flows provided by financing activities totaled \$42.5 million in the year ended December 31, 2010, compared to \$2.0 million in the combined twelve-month period ended December 31, 2009. On April 9, 2010, we completed the sale of \$250 million in aggregate principal amount of 10.5% senior notes due 2018, which we refer to as our senior notes. Of the \$238.4 million of net proceeds, which represents \$250 million of principal amount net of \$3.3 million of original issue discount and \$8.3 million of debt issuance costs, \$130.7 million was used to make a distribution to our unitholders and \$61.8 million was used to repay all outstanding borrowings under our new term loan. On August 31, 2010, we acquired \$10,673 thousand of tangible assets as noncash investing and financing activities by entering into a capital lease agreement.

Cash flows provided by financing activities totaled \$2.0 million in the combined twelve-month period ended December 31, 2009, compared to \$14.7 million in 2008. There were no significant financing activities in 2009 other than the repayment of short-term borrowings and the issuance of common units as part of our reorganization in 2009.

### ***Capital Expenditures***

We routinely make capital expenditures to enhance our existing facilities and reinforce our global research and development capability.

For the year ended December 31, 2010, capital expenditures were \$44.2 million, a \$35.0 million, or 379.7%, increase from \$9.2 million in the combined twelve-month period ended December 31, 2009. The increase was due to supporting capacity expansion and technology improvements at our fabrication facilities in anticipation of sales growth.

For the combined twelve-month period ended December 31, 2009, capital expenditures were \$9.2 million, a \$20.5 million, or 69.0%, decrease from \$29.7 million in 2008 due to no additional capacity increase during our reorganization proceedings.

### ***Seasonality***

Our net sales and number of distinct products sold are affected by market variations from quarter to quarter due to business cycles, and resulting product demand, of our customers. Our Display Solutions business typically experiences demand increases in the third and fourth calendar quarters due to increased holiday demand for the consumer products that serve as the end markets for our products. During the first quarter, by contrast, consumer products manufacturers generally reduce orders in order to reduce excess inventory remaining from the holiday season. In our Semiconductor Manufacturing Services business, the supply-demand cycle is usually one quarter ahead of the broader semiconductor market due to lead time from wafer input to shipment to our customers, so the demand for these products tends to peak in the third quarter and is slower in the fourth and first quarters.

**Table of Contents****Contractual Obligations**

The following summarizes our contractual obligations as of December 31, 2010:

	Total	2011	2012	Payments Due by Period			Thereafter
				2013	2014	2015	
				(In millions)			
Senior notes(1)	\$ 446.9	\$ 26.3	\$ 26.3	\$ 26.3	\$ 26.3	\$ 26.3	\$ 315.6
Capital lease(2)	9.4	6.2	3.2				
Operating lease(2)	51.3	5.3	4.0	2.0	1.9	1.9	36.2
Others(3)	10.8	6.0	4.7	0.2			

- (1) \$250 million aggregate principal amount as well as interest payments of senior notes issued in April 2010, which bear interest at a rate of 10.5% per annum and mature in 2018.
- (2) Assumes constant currency exchange rate for Korean won to U.S. dollars of 1,138.9.
- (3) Includes license agreements and other contractual obligations.

The indenture relating to our \$250 million senior notes contains covenants that limit our ability and the ability of our restricted subsidiaries to: (i) declare or pay any dividend or make any payment or distribution on account of or purchase or redeem our capital stock or equity interests of our restricted subsidiaries; (ii) make any principal payment on, or redeem or repurchase, prior to any scheduled repayment, sinking fund payment or maturity, any subordinated indebtedness; (iii) make certain investments; (iv) incur additional indebtedness and issue certain types of capital stock; (v) create or incur any lien (except for permitted liens) that secures obligations under any indebtedness or related guarantee; (vi) merge with or into or sell all or substantially all of our assets to other companies; (vii) enter into certain types of transactions with affiliates; (viii) guarantee the payment of any indebtedness; (ix) enter into sale-leaseback transactions; (x) enter into agreements that would restrict the ability of the restricted subsidiaries to make distributions with respect to their equity, to make loans to us or other restricted subsidiaries or to transfer assets to us or other restricted subsidiaries; and (xi) designate unrestricted subsidiaries.

We lease equipment for manufacturing and research and development purposes. These leases are accounted for as capital leases as the ownership of the equipment will be transferred to us upon expiration of the lease terms or we have bargain purchase options at the end of the lease terms.

We lease land, office space and equipment under various operating lease agreements that expire through 2034.

We follow ASC guidance on uncertain tax positions. Our unrecognized tax benefits totaled \$2.9 million as of December 31, 2010. These unrecognized tax benefits have been excluded from the above table because we cannot estimate the period of cash settlement with the respective taxing authorities.

**Quantitative and Qualitative Disclosures about Market Risk**

We are exposed to the market risk that the value of a financial instrument will fluctuate due to changes in market conditions, primarily from changes in foreign currency exchange rates and interest rates. In the normal course of our business, we are subject to market risks associated with interest rate movements and currency movements on our assets and liabilities.

**Foreign Currency Exposures**

We have exposure to foreign currency exchange rate fluctuations on net income from our subsidiaries denominated in currencies other than U.S. dollars, as our foreign subsidiaries in Korea,

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Taiwan, China, Japan and Hong Kong use local currency as their functional currency. From time to time these subsidiaries have cash and financial instruments in local currency. The amounts held in Japan, Taiwan, Hong Kong and China are not material in regards to foreign currency movements. However, based on the cash and financial instruments balance at December 31, 2010 for our Korean subsidiary, a 10% devaluation of the Korean won against the U.S. dollar would have resulted in a decrease of \$3.8 million in our U.S. dollar financial instruments and cash balances. Based on the Japanese yen cash balance at December 31, 2010, a 10% devaluation of the Japanese yen against the U.S. dollar would have resulted in a decrease of \$0.2 million in our U.S. dollar cash balance.

### ***Interest Rate Exposures***

On April 9, 2010, we completed the sale of \$250 million in aggregate principal amount of 10.500% senior notes due 2018. The \$61.6 million of total outstanding borrowings under our term loan was repaid on the same date. The \$250 million 10.500% senior notes due 2018 are subject to changes in fair value due to interest rate changes. If the market interest rate increases by 10% and all other variables were held constant from their levels at December 31, 2010, we estimate that the fair value of this fixed rate note would decrease by \$12.8 million and we would have additional interest expense costs over the market rate of \$1.1 million (on a 360-day basis). If the market interest rate decreased by 10% and all other variables were held constant from their levels at December 31, 2010, we estimate that the fair value of this fixed rate note would increase by \$13.7 million and we would have a reduction in interest expense costs over the market rate of \$1.3 million (on a 360-day basis).

### **Critical Accounting Policies and Estimates**

Preparing financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the financial statements, the reported amounts of revenues and expenses during the reporting periods and the related disclosures in our consolidated financial statements and accompanying notes.

We believe that our significant accounting policies, which are described in notes 3 and 4 to the consolidated financial statements of MagnaChip Semiconductor Corporation for the year ended December 31, 2010 included elsewhere in this prospectus, are critical due to the fact that they involve a high degree of judgment and estimates about the effects of matters that are inherently uncertain. We base these estimates and judgments on historical experience, knowledge of current conditions and other assumptions and information that we believe to be reasonable. Estimates and assumptions about future events and their effects cannot be determined with certainty. Accordingly, these estimates may change as new events occur, as more experience is acquired, as additional information is obtained and as the business environment in which we operate changes.

### ***Revenue Recognition and Accounts Receivable Valuation***

Our revenue is primarily derived from the sale of semiconductor products that we design and the manufacture of semiconductor wafers for third parties. We recognize revenue when persuasive evidence of an arrangement exists, the product has been delivered and title and risk of loss have transferred, the price is fixed and determinable and collection of resulting receivables is reasonably assured.

We recognize revenue upon shipment, upon delivery of the product at the customer's location or upon customer acceptance depending on terms of the arrangements, when the risks and rewards of ownership have passed to the customer. Certain sale arrangements include customer acceptance provisions that require written notification of acceptance within the pre-determined period from the date of delivery of the product. If the pre-determined period has ended without written notification, customer

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acceptance is deemed to have occurred pursuant to the underlying sales arrangements. In such cases, we recognize revenue the earlier of the written notification or the pre-determined period from date of delivery. Specialty semiconductor manufacturing services are performed pursuant to manufacturing agreements and purchase orders. Standard products are shipped and sold based upon purchase orders from customers. Our revenue recognition policy is consistent across our product lines, marketing venues and all geographic areas. All amounts billed to a customer related to shipping and handling are classified as sales, while all costs incurred by us for shipping and handling are classified as expenses. We currently manufacture a substantial portion of our products internally at our wafer fabrication facilities. In the future, we expect to rely, to some extent, on outside wafer foundries for additional capacity and advanced technologies.

We maintain allowances for doubtful accounts for estimated losses resulting from the inability of our customers to make payment. If the financial condition of our customers were to deteriorate, additional allowances may be required. The establishment of reserves for sales discounts is based on management judgments that require significant estimates of a variety of factors, including forecasted demand, returns and industry pricing assumptions.

### ***Accrual of Warranty Cost***

We record warranty liabilities for the estimated costs that may be incurred under limited warranties. Our warranties generally cover product defects based on compliance with our specifications and are normally applicable for twelve months from the date of product delivery. These liabilities are accrued when revenues are recognized. Warranty costs include the costs to replace the defective products. Factors that affect our warranty liability include historical and anticipated rates of warranty claims on those repairs and the cost per claim to satisfy our warranty obligations. As these factors are impacted by actual experience and future expectations, we periodically assess the adequacy of our recorded warranty liabilities and adjust the amounts as necessary.

### ***Inventory Valuation***

Inventories are valued at the lower of cost or market, using the average method, which approximates the first in, first out method. Because of the cyclical nature of the semiconductor industry, changes in inventory levels, obsolescence of technology and product life cycles, we write down inventories to net realizable value. When there is a difference in the carrying value and the net realizable value the difference is recognized as a loss on valuation of inventories within cost of sales. We estimate the net realizable value for such finished goods and work-in-progress based primarily upon the latest invoice prices and current market conditions.

We employ a variety of methodologies to determine the amount of inventory reserves necessary. While a portion of the reserve is determined based upon the age of inventory and lower of cost or market calculations, an element of the reserve is subject to significant judgments made by us about future demand for our inventory. For example, reserves are established for excess inventory based on inventory levels in excess of six months of projected demand, as judged by management, for each specific product. If actual demand for our products is less than our estimates, additional reserves for existing inventories may need to be recorded in future periods.

In addition, as prescribed in ASC guidance on inventory costs, the cost of inventories is determined based on the normal capacity of each fabrication facility. If the capacity utilization is lower than a level that management believes to be normal, the fixed overhead costs per production unit which exceed those which would be incurred when the fabrication facilities are running under normal capacity are charged to cost of sales rather than capitalized as inventories.

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### ***Long-Lived Assets***

We assess long-lived assets for impairment when events or changes in circumstances indicate that the carrying value of the assets or the asset group may not be recoverable. Factors that we consider in deciding when to perform an impairment review include significant under-performance of a business or product line in relation to expectations, significant negative industry or economic trends, and significant changes or planned changes in our use of the assets. Recoverability of assets that will continue to be used in our operations is measured by comparing the carrying value of the asset group to our estimate of the related total future undiscounted net cash flows. If an asset group's carrying value is not recoverable through the related undiscounted cash flows, the asset group is considered to be impaired. The impairment is measured by the difference between the asset group's carrying value and its fair value determined by either a quoted market price, if any, or a value determined by utilizing a discounted cash flow technique.

Impairments of long-lived assets are determined for groups of assets related to the lowest level of identifiable independent cash flows. We must make subjective judgments in determining the independent cash flows that can be related to specific asset groupings. Additionally, an evaluation of impairment of long-lived assets requires estimates of future operating results that are used in the preparation of the expected future undiscounted cash flows. Actual future operating results and the remaining economic lives of our long-lived assets could differ from the estimates used in assessing the recoverability of these assets.

### ***Intangible Assets***

The fair value of our intangible assets was recorded in connection with fresh-start reporting on October 25, 2009 and was determined based on the present value of each research project's projected cash flows using an income approach. Future cash flows are predominately based on the net income forecast of each project, consistent with historical pricing, margins and expense levels of similar products. Revenues are estimated based on relevant market size and growth factors, expected industry trends and individual project life cycles. The resulting cash flows are then discounted at a rate approximating our weighted average cost of capital.

In-process research and development, or IPR&D, is considered an indefinite-lived intangible asset and is not subject to amortization. IPR&D assets must be tested for impairment annually or more frequently if events or changes in circumstances indicate that the assets might be impaired. The impairment test consists of a comparison of the fair value of the IPR&D asset with its carrying amount. If the carrying amount of the IPR&D asset exceeds its fair value, an impairment loss must be recognized in an amount equal to that excess. After an impairment loss is recognized, the adjusted carrying amount of the IPR&D asset will be its new accounting basis. Subsequent reversal of a previously recognized impairment loss is prohibited. The initial determination and subsequent evaluation for impairment of the IPR&D asset requires management to make significant judgments and estimates. Once the IPR&D projects have been completed or abandoned, the useful life of the IPR&D asset is determined and amortized accordingly.

Technology, customer relationships and intellectual property assets are considered definite-lived assets and are amortized on a straight-line basis over their respective useful lives, ranging from 4 to 10 years.

### ***Income Taxes***

We account for income taxes in accordance with ASC guidance addressing accounting for income taxes. The guidance requires recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been recognized in a company's financial statements or

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tax returns. Under this method, deferred tax assets and liabilities are determined based on the difference between the financial statement carrying values and the tax bases of assets and liabilities using enacted tax rates in effect in the years 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.

We regularly review our deferred tax assets for recoverability considering historical profitability, projected future taxable income, the expected timing of the reversals of existing temporary differences and expiration of tax credits and net operating loss carry-forwards. We established valuation allowances for deferred tax assets at most of our subsidiaries since, other than with respect to one particular subsidiary, it is not probable that a majority of the deferred tax assets will be realizable. The valuation allowance at this particular subsidiary was not established since it is more likely than not that the deferred tax assets at this subsidiary will be realizable based on the current prospects for its future taxable income.

Changes in our evaluation of our deferred income tax assets from period to period could have a significant effect on our net operating results and financial condition.

In addition, beginning January 1, 2007, we account for uncertainties related to income taxes in compliance with ASC guidance on uncertain tax positions. Under this guidance, we evaluate our tax positions taken or expected to be taken in a tax return for recognition and measurement on our consolidated financial statements. Only those tax positions that meet the more likely than not threshold are recognized on the consolidated financial statements at the largest amount of benefit that has a greater than 50 percent likelihood of ultimately being realized. Assumptions, judgment and the use of estimates are required in determining if the more likely than not standard has been met when developing the provision for income taxes. A change in the assessment of the more likely than not standard could materially impact our consolidated financial statements.

### ***Accounting for Stock/Unit-based Compensation***

In 2006, we adopted ASC guidance addressing accounting for unit-based compensation based on a fair value method. Under this guidance, unit-based compensation cost is estimated at the grant date based on the fair value of the award and is recognized as expense over the requisite service period of the award. We use the Black-Scholes option pricing model to value unit options. In developing assumptions for fair value calculation under the guidance, we use estimates based on historical data and market information. A small change in the assumptions used in the estimate can cause a relatively significant change in the fair value calculation.

The determination of the fair value of our common units on each grant date was a two-step process. First, management estimated our enterprise value in consultation with such advisers as we deemed appropriate. Second, this business enterprise value was allocated to all sources of capital invested in us based on each type of security's respective rights and claims to our total business enterprise value. This allocation included a calculation of the fair value of our common units on a non-marketable basis. The business enterprise value was determined based on an income approach and a market approach using the revenue multiples of comparable companies, giving appropriate weight to each approach. The income approach was based on the discounted cash flow method and an estimated weighted average cost of capital.

Determination of the fair value of our common units involves complex and subjective judgments regarding projected financial and operating results, our unique business risks, the liquidity of our units and our operating history and prospects at the time of grant. If we make different judgments or adopt

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different assumptions, material differences could result in the amount of the share-based compensation expenses recorded because the estimated fair value of the underlying units for the options granted would be different.

### ***Fresh-Start Reporting***

Upon emergence from our reorganization proceedings, we adopted fresh-start reporting in accordance with ASC 852. Our emergence from reorganization proceedings resulted in a new reporting entity with no retained earnings or accumulated deficit. Accordingly, our consolidated financial statements for periods prior to and including October 25, 2009 are not comparable to consolidated financial statements presented on or after October 25, 2009.

Fresh-start reporting reflects our value as determined in our confirmed plan of reorganization. Under fresh-start reporting, our asset values were remeasured and allocated in conformity with ASC guidance on business combinations. Fresh-start reporting required that all liabilities, other than deferred taxes and severance benefits, be stated at fair value. Deferred taxes are determined in conformity with ASC guidance on income taxes or ASC 740.

### ***Cash Flow Hedges***

We are exposed to non-functional currency denominated cash flow fluctuations in connection with third party sales. We use foreign currency forward and option contracts to hedge certain of these risks. Throughout the term of the designated cash flow hedge relationship, but at least quarterly, a retrospective evaluation and prospective assessment of hedge effectiveness is performed. Designated components of our derivative instruments' gains or losses are included in the assessment of hedge effectiveness. In conjunction with our effectiveness testing, we also evaluate ineffectiveness associated with the hedge relationship. Resulting ineffectiveness, if any, is recognized immediately in our consolidated statements of operations.

We record the fair value of our foreign currency derivative contracts qualifying for cash flow hedge accounting treatment in our consolidated balance sheet with the effective portion of the related gain or loss on those contracts deferred in unitholders' equity as a component of accumulated other comprehensive income. These deferred gains or losses are recognized in our consolidated statements of operations in the same period in which the underlying hedged sales transactions are recognized and on the same line item as the underlying hedged items. However, in the event the relationship is no longer effective, we recognize the change in the fair value of the hedging derivative instrument from the date the hedging derivative instrument becomes no longer effective immediately in the consolidated statements of operations.

### ***Recent Accounting Pronouncements***

In January 2010, the FASB issued Accounting Standards Update 2010-06, or ASU 2010-06, which amends the disclosure requirements of ASC 820, *Fair Value Measurements and Disclosures*, as of January 1, 2010, or ASC 820. ASU 2010-06 requires new disclosures for any transfers of fair value into and out of Level 1 and 2 fair value measurements and separate presentation of purchases, sales, issuances and settlements within the reconciliation of Level 3 unobservable inputs. We previously adopted ASC 820 on January 1, 2008 and January 1, 2009 for financial assets and liabilities and for nonfinancial assets and liabilities, respectively. ASU 2010-06 is effective for annual and interim periods beginning after December 15, 2009, except for the Level 3 reconciliation which is effective for annual and interim periods beginning after December 15, 2010. The adoption of ASU 2010-06 as of January 1, 2010 did not have a material effect on our financial condition or results of operations. We do not expect the adoption of ASU 2010-06 in relation to the Level 3 reconciliation to have a material impact on our financial condition or results of operations.



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In June 2009, the FASB issued ASC 810, *Consolidation*, or ASC 810, which (1) replaces the quantitative-based risks and rewards calculation for determining whether an enterprise is the primary beneficiary in a variable interest entity with an approach that is primarily qualitative, (2) requires ongoing assessments of whether an enterprise is the primary beneficiary of a variable interest entity and (3) requires additional disclosures about an enterprise's involvement in variable interest entities. We were required to adopt ASC 810 as of the beginning of 2010. The adoption of ASC 810 did not have a material impact on our consolidated financial position, results of operations or cash flows.

## **Controls and Procedures**

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and is effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with generally accepted accounting principles. As a private company we have designed our internal control over financial reporting to provide reasonable assurance to our management and board of directors regarding the reliability of financial reporting and the preparation of financial statements in accordance with generally accepted accounting principles. As a public company, under Section 404 of the Sarbanes-Oxley Act, we will also be required to include a report of management on our internal control over financial reporting in our Annual Reports on Form 10-K. This requirement will first apply to our Annual Report on Form 10-K for our fiscal year ending December 31, 2011. We may also in the future become subject to the requirement that our independent registered public accounting firm attest to and report on the effectiveness of our internal control over financial reporting. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected.

In connection with audits of our consolidated financial statements for the ten-month period ended October 25, 2009 and two-month period ended December 31, 2009, our independent registered public accounting firm reported two control deficiencies which represented a material weakness in our internal control over financial reporting. The two control deficiencies which represented a material weakness were that we did not have a sufficient number of financial personnel with the requisite financial accounting experience and our controls over non-routine transactions were not effective to ensure that accounting considerations were identified and appropriately recorded.

Our management and our board of directors agree that the control deficiencies identified by our independent registered public accounting firm represented a material weakness. We have identified and have taken steps to remediate this material weakness.

We remediated our material weakness in internal control over financial reporting by implementing the following remediation activities:

Management enhanced our financial accounting capability. This included:

- (i) hiring a director of financial reporting to review internal control over financial reporting and expanding staffing and resources dedicated to financial reporting,
- (ii) providing additional training to accounting personnel to strengthen their GAAP knowledge and ability to identify potential errors in the underlying financial reporting process, and
- (iii) maintaining professional services from external professional firms to supplement internal resources during the transition period.

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Management improved our period end closing process to identify non-routine and significant transactions earlier and to take appropriate financial reporting actions. This included:

- (i) defining key financial reporting schedule and action items,
- (ii) redefining our book closing checklist for each key responsible person and for each reviewer,
- (iii) having regular meetings with financial reporting parties to update the significant accounting events and to review the identified accounting issues,
- (iv) communicating with other non-financial reporting parties to ensure all non-routine and significant transactions are captured and analyzed by the accounting team, and
- (v) monitoring key changes in GAAP and financial reporting requirements and analyzing the impact of changed GAAP or related regulation on the company.

Based upon the remediation actions taken by us, our management has concluded that the two control deficiencies which represented a material weakness no longer exist as of December 31, 2010.

Management is responsible for and is committed to maintaining a strong control environment, high ethical standards, and financial reporting integrity. This commitment continues to be communicated to and reinforced with our employees.

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**BUSINESS**

**Our Business**

We are a Korea-based designer and manufacturer of analog and mixed-signal semiconductor products for high-volume consumer applications. We believe we have one of the broadest and deepest analog and mixed-signal semiconductor technology platforms in the industry, supported by our 30-year operating history, large portfolio of approximately 2,730 registered novel patents and 760 pending novel patent applications and extensive engineering and manufacturing process expertise. Our business is comprised of three key segments: Display Solutions, Power Solutions and Semiconductor Manufacturing Services. Our Display Solutions products include display drivers that cover a wide range of flat panel displays and mobile multimedia devices. Our Power Solutions products include discrete and integrated circuit solutions for power management in high-volume consumer applications. Our Semiconductor Manufacturing Services segment provides specialty analog and mixed-signal foundry services for fabless semiconductor companies that serve the consumer, computing and wireless end markets.

Our wide variety of analog and mixed-signal semiconductor products and manufacturing services combined with our deep technology platform allows us to address multiple high-growth end markets and to rapidly develop and introduce new products and services in response to market demands. Our substantial manufacturing operations in Korea and design centers in Korea and Japan place us at the core of the global consumer electronics supply chain. We believe this enables us to quickly and efficiently respond to our customers' needs and allows us to better service and capture additional demand from existing and new customers.

We have a long history of supplying and collaborating on product and technology development with leading innovators in the consumer electronics market. As a result, we have been able to strengthen our technology platform and develop products and services that are in high demand by our customers and end consumers. We sold over 2,400 and 2,300 distinct products to over 500 and 185 customers for the year ended December 31, 2010 and the combined twelve-month period ended December 31, 2009, with a substantial portion of our revenues derived from a concentrated number of customers. The increase in number of customers is due to the continuing growth of our Power Solutions business. Our largest semiconductor manufacturing services customers include some of the fastest growing and leading semiconductor companies that design analog and mixed-signal products for the consumer, computing, and wireless end markets.

For the year ended December 31, 2010, we generated net sales of \$770.4 million, income from continuing operations of \$74.1 million, Adjusted EBITDA of \$157.9 million and Adjusted Net Income of \$89.2 million. For 2009 (on a combined basis), we generated net sales of \$560.1 million, income from continuing operations of \$832.0 million, Adjusted EBITDA of \$98.7 million and Adjusted Net Income of \$22.6 million. On June 12, 2009, we filed a voluntary petition for relief under Chapter 11 of the United States Bankruptcy Code and our plan of reorganization became effective on November 9, 2009. For 2008, we generated net sales of \$601.7 million, losses from continuing operations of \$325.8 million, Adjusted EBITDA of \$59.8 million and Adjusted Net Loss of \$71.7 million. See Prospectus Summary Summary Historical and Unaudited Pro Forma Consolidated Financial Data, beginning on page 8 for an explanation of our use of Adjusted EBITDA and Adjusted Net Income.

**Market Opportunity**

The consumer electronics market is large and growing rapidly. Growth in this market is being driven by consumers seeking to enjoy a wide variety of available rich media content, such as high

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definition audio and video, mobile television and games. Consumer electronics manufacturers recognize that the consumer entertainment experience plays a critical role in differentiating their products. To address and further stimulate consumer demand, electronics manufacturers have been driving rapid advances in the technology, functionality, form factor, cost, quality, reliability and power consumption of their products. Electronics manufacturers are continuously implementing advanced technologies in new generations of electronic devices using analog and mixed-signal semiconductor components, such as display drivers that enable display of high resolution images, encoding and decoding devices that allow playback of high definition audio and video, and power management semiconductors that increase power efficiency, thereby reducing heat dissipation and extending battery life. These advanced generations of consumer devices are growing faster than the overall consumer electronics market. For example, according to Gartner, production of LCD televisions, smartphones, mobile PCs, and media tablets is expected to grow from 2010 to 2013 by a compound annual growth rate of 8%, 39%, 25%, and 99%, respectively.

The user experience delivered by a consumer electronic device is substantially driven by the quality of the display, audio and video processing capabilities and power efficiency of the device. Analog and mixed-signal semiconductors enable and enhance these capabilities. Examples of these analog and mixed-signal semiconductors include display drivers, timing controllers, audio encoding and decoding devices, or codecs, and interface circuits, as well as power management semiconductors such as voltage regulators, converters, and switches. According to iSuppli, in 2009, the display driver semiconductor market was \$6.2 billion and the power management semiconductor market was \$22.4 billion.

### **Requirements of Leading Consumer Electronics Manufacturers**

We believe our target customers view the following characteristics and capabilities as key differentiating factors among available analog and mixed-signal semiconductor suppliers and manufacturing service providers:

***Broad Offering of Differentiated Products with Advanced System-Level Features and Functions.*** Leading consumer electronics manufacturers seek to differentiate their products by incorporating innovative semiconductor products that enable unique system-level functionality and enhance performance. These consumer electronics manufacturers seek to closely collaborate with semiconductor solutions providers that continuously develop new and advanced products, technologies, and manufacturing processes that enable state of the art features and functions, such as bright and thin displays, small form factor and energy efficiency.

***Fast Time to Market with New Products.*** As a result of rapid technological advancements and short product lifecycles, our target customers typically prefer suppliers who have a compelling pipeline of new products and can leverage a substantial intellectual property and technology base to accelerate product design and manufacturing when needed.

***Nimble, Stable and Reliable Manufacturing Services.*** Fabless semiconductor providers who rely on external manufacturing services often face rapidly changing product cycles. If these fabless companies are unable to meet the demand for their products due to issues with their manufacturing services providers, their profitability and market share can be significantly impacted. As a result, they prefer semiconductor manufacturing services providers who can increase production quickly and meet demand consistently through periods of constrained industry capacity. Furthermore, many fabless semiconductor providers serving the consumer electronics and industrial sectors need specialized analog and mixed-signal manufacturing capabilities to address their product performance and cost requirements.

***Ability to Deliver Cost Competitive Solutions.*** Electronics manufacturers are under constant pressure to deliver cost competitive solutions. To accomplish this objective, they need

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strategic semiconductor suppliers that have the ability to provide system-level solutions, highly integrated products, a broad product offering at a range of price points and have the design and manufacturing infrastructure and logistical support to deliver cost competitive products.

***Focus on Delivering Highly Energy Efficient Products.*** Consumers increasingly seek longer run time, environmentally friendly and energy efficient consumer electronic products. In addition, there is increasing regulatory focus on reducing energy consumption of consumer electronic products. For instance, the California Energy Commission recently adopted standards that require televisions sold in California to consume 33% less energy by 2011 and 49% less energy by 2013. As a result of global focus on more environmentally friendly products, our customers are seeking analog and mixed-signal semiconductor suppliers that have the technological expertise to deliver solutions that satisfy these ever increasing regulatory and consumer power efficiency demands.

### **Our Competitive Strengths**

Designing and manufacturing analog and mixed-signal semiconductors capable of meeting the evolving functionality requirements for consumer electronics devices is challenging. In order to grow and succeed in the industry, we believe semiconductor suppliers must have a broad, advanced intellectual property portfolio, product design expertise, comprehensive product offerings and specialized manufacturing process technologies and capabilities. Our competitive strengths enable us to offer our customers solutions to solve their key challenges. We believe our strengths include:

***Advanced Analog and Mixed-Signal Semiconductor Technology and Intellectual Property Platform.*** We believe we have one of the broadest and deepest analog and mixed-signal semiconductor technology platforms in the industry. Our long operating history, large patent portfolio, extensive engineering and manufacturing process expertise and wide selection of analog and mixed-signal intellectual property libraries allow us to leverage our technology and develop new products across multiple end markets. Our product development efforts are supported by a team of approximately 394 engineers. Our platform allows us to develop and introduce new products quickly as well as to integrate numerous functions into a single product. For example, we were one of the first companies to introduce a commercial AMOLED display driver for mobile phones.

***Established Relationships and Close Collaboration with Leading Global Electronics Companies.*** We have a long history of supplying and collaborating on product and technology development with leading innovators in the consumer electronics market. Our close customer relationships have been built based on many years of close collaborative product development which provides us with deep system level knowledge and key insights into our customers' needs. As a result, we are able to continuously strengthen our technology platform in areas of strategic interest for our customers and focus on those products and services that our customers and end consumers demand the most.

***Longstanding Presence in Asia and Proximity to Global Consumer Electronics Supply Chain.*** Our presence in Asia facilitates close contact with our customers, fast response to their needs and enhances our visibility into new product opportunities, markets and technology trends. According to Gartner, semiconductor consumption in Asia, excluding Japan, has increased from 49% of global production in 2004 to 60% in 2009 and is projected to grow to 66% by 2013. Our substantial manufacturing operations in Korea and design centers in Korea and Japan place us close to many of our largest customers and to the core of the global consumer electronics supply chain. We have active applications, engineering, product design, and customer support resources, as well as senior management and marketing resources, in geographic locations close to our customers. This allows us to strengthen our relationship with customers through better service, faster turnaround time and improved product design.

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collaboration. We believe this also helps our customers to deliver products faster than their competitors and to solve problems more efficiently than would be possible with other suppliers.

***Broad Portfolio of Product and Service Offerings Targeting Large, High-Growth Markets.*** We continue to develop a wide variety of analog and mixed-signal semiconductor solutions for multiple high-growth consumer electronics end markets. We believe our expanding product and service offerings allow us to provide additional products to new and existing customers and to cross-sell our products and services to our established customers. For example, we have leveraged our technology expertise and customer relationships to develop and grow a new business offering power management solutions to customers. Our power management solutions enable our customers to increase system stability and reduce heat dissipation and energy use, resulting in cost savings for our customers, as well as environmental benefits. We have been able to sell these new products to our existing customers as well as expand our customer base.

***Distinctive Analog and Mixed-Signal Process Technology Expertise and Manufacturing Capabilities.*** We have developed specialty analog and mixed-signal manufacturing processes such as high voltage CMOS, power and embedded memory. These processes enable us to flexibly ramp mass production of display, power and mixed-signal products, and shorten the duration from design to delivery of highly integrated, high-performance analog and mixed-signal semiconductors. As a result of the depth of our process technology, captive manufacturing facilities and customer support capabilities, we believe the majority of our top twenty manufacturing services customers by revenue currently use us as their primary manufacturing source for the products that we manufacture for them.

***Highly Efficient Manufacturing Capabilities.*** Our manufacturing strategy is focused on optimizing our asset utilization across our display driver and power management products as well as our semiconductor manufacturing services, which enables us to maintain the price competitiveness of our products and services through our low-cost operating structure and improve our operational efficiency. We believe the location of our primary manufacturing and research and development facilities in Asia and relatively low required ongoing capital expenditures provide us with a number of cost advantages. We offer specialty analog process technologies that do not require substantial investment in leading edge, smaller geometry process equipment. We are able to utilize our manufacturing base over an extended period of time and thereby minimize our capital expenditure requirements.

***Strong Financial Model with a Low-Cost Structure.*** Over the past two years we implemented significant structural improvements to our operating and financial model that lowered our capital investment requirements and improved our cash flow and profitability. The long lifecycles of our manufacturing processes, equipment and facilities allow us to keep our new capital requirements relatively low. We believe that our low-cost but highly skilled design and support engineers and manufacturing base position us favorably to compete in the marketplace and provide operating leverage in our operating model.

## **Our Strategy**

Our objective is to grow our business, our cash flow and profitability and to establish our position as a leading provider of analog and mixed-signal semiconductor products and services for high-volume markets. Our business strategy emphasizes the following key elements:

***Leverage Our Advanced Analog and Mixed-Signal Technology Platform to Innovate and Deliver New Products and Services.*** We intend to continue to utilize our extensive patent and technology portfolio, analog and mixed-signal design and manufacturing expertise and specific end-market applications and system-level design expertise to deliver products with high levels of performance by utilizing our systems expertise and leveraging our deep

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knowledge of our customers' needs. For example, we have recently utilized our extensive patent portfolio, process technologies and analog and mixed-signal technology platform to develop cost-effective Super Junction MOSFETs as well as low power integrated power solutions for AC-DC offline switchers to address more of our customers' needs. In Display Solutions, we continue to invest in research and development to introduce new technologies to support our customers' technology roadmaps such as their transition to 240Hz 3D LED televisions. In Semiconductor Manufacturing Services, we are developing cost-effective processes that substantially reduce die size using deep trench isolation.

***Increase Business with Existing Customers.*** We have a global customer base consisting of leading consumer electronics OEMs who sell into multiple end markets. We intend to continue to strengthen our relationships with our customers by collaborating on critical design and product development in order to improve our design win rates. We will seek to increase our customer penetration by more closely aligning our product roadmap with those of our key customers and by taking advantage of our broad product portfolio, our deep knowledge of customer needs and existing relationships to sell more existing and new products. For example, two of our largest display driver customers have display modules in production using our power management products. These power management products have been purchased and evaluated via their key subcontractors for LCD backlight units and LCD integrated power supplies.

***Broaden Our Customer Base.*** We expect to continue to expand our global design centers, local application engineering support and sales presence, particularly in China, Hong Kong, Taiwan and Macau, or collectively, Greater China, and other high-growth geographies, to penetrate new accounts. In addition, we intend to introduce new products and variations of existing products to address a broader customer base. In order to broaden our market penetration, we are complementing our direct customer relationships and sales with an expanded base of distributors, especially to aid the growth of our power management business. We expect to continue to expand our distribution channels as we broaden our power management penetration beyond existing customers.

***Aggressively Grow the Power Business.*** We have utilized our extensive patent portfolio, process technologies, captive manufacturing facilities and analog and mixed-signal technology platform to develop power management solutions that expand our market opportunity and address more of our customers' needs. We intend to increase the pace of our new power product introductions by continuing to collaborate closely with our industry-leading customers. For example, we began mass production of our first integrated power solution for LCD televisions at one of our major Korean customers in early 2010. We also intend to capitalize on the market needs and regulatory requirements for power management products that reduce energy consumption of consumer electronic products by introducing products that are more energy efficient than those of competitors. We believe our integrated designs, unique low-cost process technologies and deep customer relationships will enable us to increase sales of our power solutions to our current power solutions customers, and as an extension of our other product offerings, to our other customers.

***Drive Execution Excellence.*** We have significantly improved our execution through a number of management initiatives implemented under the direction of our Chief Executive Officer and Chairman, Sang Park. As an example, we have introduced new processes for product development, customer service and personnel development. We expect these ongoing initiatives will continue to improve our new product development and customer service as well as enhance our commitment to a culture of quick action and execution by our workforce. In addition, we have focused on and continually improved our manufacturing efficiency during the past several years. As a result of our focus on execution excellence, we have also meaningfully reduced our time from new product definition to development completion. For example, we

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have improved our average development turnaround time by over 40% over the last three years for semiconductor manufacturing services by implementing continuous business process improvement initiatives and we improved our manufacturing productivity per operator by 22% from 2009 to 2010.

***Optimize Asset Utilization, Return on Capital Investments and Cash Flow Generation.*** We intend to keep our capital expenditures relatively low by maintaining our focus on specialty process technologies that do not require substantial investment in frequent upgrades to the latest manufacturing equipment. We also believe our power management business should increase our utilization and return on capital as the manufacturing of these products primarily relies on our 0.35 $\mu$ m geometry and low-cost equipment. By utilizing our manufacturing facilities for both our display solutions and power solutions products and our semiconductor manufacturing services customers, we will seek to maximize return on our capital investments and our cash flow generation.

## **Our Technology**

We continuously strengthen our advanced analog and mixed-signal semiconductor technology platform by developing innovative technologies and integrated circuit building blocks that enhance the functionality of consumer electronics products through brighter, thinner displays, enhanced image quality, smaller form factor and longer battery life. We seek to further build our technology platform through proprietary research and development and selective licensing and acquisition of complementary technologies, as well as disciplined process improvements in our manufacturing oper