

MAGNACHIP SEMICONDUCTOR Corp

Form 10-K

February 12, 2015

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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

**FORM 10-K**

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the fiscal year ended December 31, 2013

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 001-34791

**MagnaChip Semiconductor Corporation**

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(Exact name of registrant as specified in its charter)

**Delaware**  
(State or Other Jurisdiction of  
Incorporation or Organization)

**83-0406195**  
(I.R.S. Employer  
Identification No.)

c/o MagnaChip Semiconductor S.A.

1, Allée Scheffer, L-2520

Luxembourg, Grand Duchy of Luxembourg

(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: (352) 45-62-62

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, par value \$0.01 per share	New York Stock Exchange
Securities registered pursuant to Section 12(g) of the Act: None	

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.  Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.  Yes  No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.  Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).  Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.  x

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.

Large Accelerated Filer

Accelerated Filer

x

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Non-Accelerated Filer  (Do not check if a smaller reporting company)  Smaller Reporting Company   
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).  Yes  No

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant's most recently completed second fiscal quarter. \$504,621,328

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court.  Yes  No

As of January 31, 2015, the registrant had 34,056,468 shares of common stock outstanding.

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**Explanatory Note**

This Annual Report on Form 10-K for the year ended December 31, 2013 (this 2013 Form 10-K or this Report ), being filed by MagnaChip Semiconductor Corporation (together with its consolidated subsidiaries, we, our, us, the Company or MagnaChip ), contains audited financial statements of the Company for the years ended December 31, 2013, 2012 and 2011, which are presented on a restated basis to the extent previously filed in a periodic report by the Company with the Securities and Exchange Commission (the SEC ).

The Company filed a Current Report on Form 8-K with the SEC on March 11, 2014 (the Restatement Form 8-K ) disclosing the determination of the Audit Committee of the Company s Board of Directors that certain of the Company s previously issued annual audited and interim unaudited financial statements contained in its historical Annual Reports on Form 10-K and Quarterly Reports on Form 10-Q should no longer be relied upon.

This 2013 Form 10-K restates and corrects the following financial statements of the Company (the Restatement ): (i) the audited consolidated balance sheets as of December 31, 2012 and 2011 and consolidated statements of operations, comprehensive income, changes in stockholders equity and cash flows for each of the years ended December 31, 2012 and 2011; and (ii) the five year selected financial data presented in this Report.

This 2013 Form 10-K is being filed by the Company in lieu of the Company separately filing with the SEC amendments to its previously filed Annual Reports on Form 10-K for each of the years ended December 31, 2012 and 2011. The Company is concurrently herewith filing its delayed Quarterly Report on Form 10-Q for the quarterly periods ended March 31, June 30 and September 30, 2014 (the 2014 Form 10-Qs ). For additional information regarding certain risks associated with our failure to file timely periodic reports and resume a timely filing schedule, please see the risk factors under Risks Related to the Restatement, Failure to File Timely Periodic Reports with the SEC and our Internal Control Over Financial Reporting contained in Item 1A. Risk Factors in Part I of this 2013 Form 10-K.

The Company has not separately amended, and does not intend to separately amend, its previously filed Annual Report on Form 10-K for the years ended on or prior to December 31, 2012 or its Quarterly Reports on Form 10-Q for the periods ended on or prior to September 30, 2013, affected by the Restatement. For this reason, the financial statements and supplementary data, selected financial data and other financial information, related reports of the Company s independent registered public accountants, management s discussion and analysis of financial condition and results of operations and reports on disclosure controls and procedures and internal control over financial reporting contained in those filings should no longer be relied upon and are superseded by the information contained in this 2013 Form 10-K. This 2013 Form 10-K supersedes the financial information disclosed by the Company since its announcement of the Restatement on March 11, 2014, including the information contained in the Restatement Form 8-K filed with the SEC.

Because of the amount of time that has passed since the Company s last periodic report was filed with the SEC, the information relating to our business, risk factors, legal proceedings and related matters is updated to include certain information for periods after December 31, 2013.

***Restatement Summary***

In January 2014, the Audit Committee (the Audit Committee ) of the Company s Board of Directors (the Board ) commenced an internal investigation, with the assistance of outside professionals, into certain revenue recognition issues under United States generally accepted accounting principles ( US GAAP ) relating to sales of a discrete number of products sold through the Company s distributor network that arose during the 2013 year-end audit process (the Independent Investigation ). During the process of the Independent Investigation, significant issues were identified based on which management also performed a Company-wide review of related accounting records. As a result, numerous accounting errors were identified and corrected related to, among other things, revenue recognition, cost of goods sold, inventory reserves, capitalization, expense recognition and allocation, as well as related business practices, for distributor, non-distributor customers and vendors, which are described in more detail in Note 2. Restatement of Consolidated Financial Statements. The correction of these errors affected the financial statements as of and for each of the years ended December 31, 2012 and 2011, including the stockholders equity balance as of January 1, 2011.

The Company considered information obtained during the Independent Investigation in making determinations with respect to accounting adjustments reflected in the restated consolidated financial statements contained in this 2013 Form 10-K, and the Company s determinations are consistent with the findings of the Independent Investigation. Adjustments identified by management were made to the consolidated financial statements in connection with the Restatement.

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The adjustments recorded in the fiscal years ended December 31, 2012 and 2011 in connection with the Restatement are aggregated as follows:

	<b>Net Income (Loss)</b>	
	<b>Years Ended December 31,</b>	
	<b>2012</b>	<b>2011</b>
	<b>(In thousands)</b>	
As Previously Reported	\$ 193,301	\$ 21,793
Adjustments:		
Revenue Recognition	(8,737)	(16,418)
Inventory Reserves	(7,810)	(10,075)
Understated Employee Benefits	(1,091)	(2,472)
Settlement Obligations	879	(2,116)
Tax Matters	(65,637)	(1,319)
Other Adjustments	(867)	(694)
<b>Total Adjustments</b>	<b>(83,263)</b>	<b>(33,094)</b>
As Restated	\$ 110,038	\$ (11,301)

The following table presents as restated and previously reported summary financial data for net sales, gross profit, operating income, net income (loss) and earnings (loss) per share data for the years ended December 31, 2012 and 2011:

	<b>Year Ended December 31, 2012</b>			<b>Year Ended December 31, 2011</b>		
	<b>As Previously Reported</b>	<b>Restatement Adjustments</b>	<b>As Restated</b>	<b>As Previously Reported</b>	<b>Restatement Adjustments</b>	<b>As Restated</b>
	<b>(In thousands, except share data)</b>					
Net sales	\$ 819,592	\$ (12,256)	\$ 807,336	\$ 772,831	\$ (29,701)	\$ 743,130
Gross Profit	263,501	(20,254)	243,247	234,316	(34,782)	199,534
Operating Income	105,807	(21,492)	84,315	72,940	(35,963)	36,977
Net Income (loss)	193,301	(83,263)	110,038	21,793	(33,094)	(11,301)
Earnings (loss) Per Share-Basic	5.29		3.01	0.56		(0.29)
Earnings (loss) Per Share-Diluted	5.16		2.93	0.55		(0.29)

As a result of the errors discussed above, management identified material weaknesses in our internal control over financial reporting. Accordingly, management has concluded that the Company did not maintain effective internal control over financial reporting as of December 31, 2013. These material weaknesses have not been fully remediated as of the filing date of this Report. Further, the Company's Interim Chief Executive Officer and Interim Chief Financial Officer have concluded that the Company's disclosure controls and procedures were not effective as of December 31, 2013.

For more information on the matters that have led to the Restatement and data previously reported, see Note 2. Restatement of Consolidated Financial Statements and Note 24. Unaudited Quarterly Financial Results to our consolidated financial statements under Item 8. Financial Statements and Supplementary Data in this 2013 Form 10-K. In addition, this 2013 Form 10-K reflects, as applicable, the effects of the Restatement in Item 6. Selected Financial Data for the fiscal years ended December 31, 2012, 2011 and 2010, and the two-month period ended December 31, 2009 and the ten-month period ended October 25, 2009 and Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations for the fiscal years ended December 31, 2012 and 2011. The material weaknesses identified in the Company's internal control over financial reporting and management's evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures, as well as management's remediation plans, are more fully described in Item 9A. Controls and Procedures in Part II of this 2013 Form 10-K.

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**MAGNACHIP SEMICONDUCTOR CORPORATION AND SUBSIDIARIES**

**FORM 10-K FOR THE YEAR ENDED DECEMBER 31, 2013**

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**PART I**

**INDUSTRY AND MARKET DATA**

In this Report, we rely on and refer to information regarding the semiconductor market from Gartner, Inc. ( Gartner ). Market data attributed to Gartner is from Semiconductor Forecast Database, Worldwide, 4Q13 Update. 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 Report regarding our industry and our position in the industry based on our experience in the industry and our own views of market conditions.

Statements made in this Report, unless the context otherwise requires, include the use of the terms us, we, our, the Company and MagnaChip refer to MagnaChip Semiconductor Corporation and its consolidated subsidiaries. The term Korea refers to the Republic of Korea or South Korea.

**SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS**

We have made certain forward-looking statements in this Report within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act ), and Section 27A of the Securities Act of 1933, as amended (the Securities Act ), that involve 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. You can identify these statements 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 of similar meaning in connection with any discussion of the timing or nature of future operating or financial performance or other events. All statements other than statements of historical facts included in this Report 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 Report 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 Report.

All forward-looking statements speak only as of the date of this Report. 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.

MagnaChip is a registered trademark of us and our subsidiaries and MagnaChip Everywhere is our registered trademark and service mark. All other product, service and company names mentioned in this Report are the service marks or trademarks of their respective owners.

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**Item 1. Business**

**General**

We are a Korea-based designer and manufacturer of analog and mixed-signal semiconductor products for high-volume consumer, computer and communication 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 3,167 registered novel patents and 134 pending novel patent applications and extensive engineering and manufacturing process expertise. Our business is comprised of three key business lines: 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, computer, communication and industrial applications. Our Semiconductor Manufacturing Services provide 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 allow us to address multiple high-growth end markets and to rapidly develop and introduce new products and services in response to market demands. Our design center and substantial manufacturing operations in Korea 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 serve 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 2,100 distinct products in each of the years ended December 31, 2013 and December 31, 2012, with a substantial portion of our revenues derived from a concentrated number of customers. Our largest Semiconductor Manufacturing Services customers include some of the 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 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, and tablet PCs is expected to grow from 2013 to 2016 by a compound annual growth rate of 3%, 16%, and 22%, 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 Gartner, the worldwide semiconductor market in 2012 was \$300 billion.

For the year ended December 31, 2013, we generated net sales of \$734.2 million, net loss of \$64.2 million, Adjusted EBITDA of \$20.0 million and Adjusted Net Loss of \$31.5 million. See Item 6. Selected Financial Data and Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations elsewhere in this Report for an explanation of our use of Adjusted EBITDA and Adjusted Net Income and a reconciliation to net income (loss) prepared in accordance with US GAAP.



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#### **Our History**

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

On March 10, 2011, we completed our initial public offering, which we refer to as the MagnaChip IPO. Prior to the MagnaChip IPO, MagnaChip Semiconductor LLC, a Delaware limited liability company, was converted to MagnaChip Semiconductor Corporation, a Delaware corporation. 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 MagnaChip IPO registration statement. 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 one share of common stock for eight common units. We refer to such transactions as the corporate conversion.

Avenue Capital Management II, L.P., or Avenue Capital Management, 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 Report, we refer to funds affiliated with Avenue Capital Management collectively as Avenue. Avenue was a holder of a significant portion of our indebtedness which was outstanding prior to our 2009 reorganization proceedings under Chapter 11 of the United States Bankruptcy Code, which we refer to as 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 in our reorganization proceedings.

As of December 31, 2013, Avenue beneficially owned 4,644,939 shares, or approximately 13.4%, of our outstanding common stock, including 555,961 shares of common stock issuable upon exercise of outstanding warrants that were currently exercisable as of such date. On November 9, 2014, all warrants to purchase our common stock previously held by Avenue expired. As of December 31, 2014, Avenue beneficially owned 4,088,978 shares, or approximately 12.0%, of our outstanding common stock.

#### **Restatement**

As discussed in the Explanatory Note and in Note 2 to our consolidated financial statements under Item 8. Financial Statements and Supplementary Data in this Report, our Audit Committee concluded that certain of the Company's previously issued financial statements should no longer be relied upon because of certain errors in those financial statements and would be restated. As a result of the Independent Investigation process, the Company has not filed a periodic report prior to the filing of this Report since November 2013. Because of the amount of time that has passed since the Company's last periodic report was filed with the SEC, the information relating to the Company's business contained in this Report has been updated in certain circumstances where the Company deemed appropriate to include certain information for periods after December 31, 2013.

#### **Our Products and Services**

Our Display Solutions line of products provide flat panel display solutions to all major suppliers of large and small flat panel displays, and include MagnaChip sensor products for mobile applications and industrial applications. These products include source and gate drivers and timing controllers that cover a wide range of flat panel displays used in UHD, HD, light emitting diode (LED), 3D and OLED televisions and displays, notebooks and mobile communications and entertainment devices. Our Display Solutions line of products support the industry's most advanced display technologies, such as active matrix organic light emitting diodes (AMOLEDs), and low temperature polysilicons (LTPS), as well as high-volume display technologies such as thin film transistors, or TFTs. MagnaChip sensor products are providing a full range of intelligent sensor product families featuring 0.18 micron analog and mixed-signal technology with low power consumption. The MagnaChip sensor families target the growing market for applications ranging from smartphone, tablet, navigation, industrial applications to medical devices. The MagnaChip sensor families include e-Compass and digital Hall sensors. Our Display Solutions products represented 27.7%, 35.4%, and 43.6% of our net sales for the fiscal years ended December 31, 2013, 2012 and 2011, respectively.

We expanded our business and market opportunity by establishing our Power Solutions product line in late 2007. We have introduced a number of products for power management applications, including metal oxide semiconductor field effect transistors, or MOSFETs, power modules, analog switches, LED drivers, DC-DC and AC-DC converters and linear regulators for a range of devices, including LCD, LED, 3D televisions,

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smartphones, mobile phones, desktop PCs, notebooks, tablet PCs, other consumer electronics, and industrial applications such as power suppliers, LED lighting and home appliances. Our Power Solutions products represented 18.4%, 15.5% and 11.8% of our net sales for the fiscal years ended December 31, 2013, 2012 and 2011, respectively.

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We also 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 (CMOS), high voltage CMOS, ultra-low leakage high voltage CMOS and bipolar complementary double-diffused metal oxide semiconductor (BCDMOS) and electronically erasable programmable read only memory (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, touch screen controllers, RF switches, park distance control sensors for automotive, electronic tag memories and power management semiconductors. Our Semiconductor Manufacturing Services business represented 53.9%, 49.0% and 44.5% of our net sales for the fiscal years ended December 31, 2013, 2012 and 2011, respectively.

We manufacture all of our products at our three fabrication facilities located in Korea. We have approximately 377 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.

On December 4, 2014, our Board of Directors approved a plan to close the Company's six-inch fabrication facility in Cheongju, Korea (the 6-inch fab). This plan is expected to be substantially implemented and the 6-inch fab is expected to be closed by the end of fiscal year 2015. The Company plans to transfer the 6-inch fab employees to the Company's other facilities.

### **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 rich media content, such as high 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 liquid crystal display (LCD) televisions, smartphones and tablet PCs is expected to grow from 2013 to 2016 by a compound annual growth rate of 3%, 16%, and 22%, 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 Gartner, the worldwide semiconductor market in 2012 was \$300 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

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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.

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***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 service providers that 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 strategic semiconductor suppliers that have the ability to provide system-level solutions, highly integrated products and 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. 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 449 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 and 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, is projected to grow to 71% of global consumption by 2016. Our design center and substantial manufacturing operations in Korea 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 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 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.

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**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 the relatively low need for 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.

### **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 knowledge of our customers' needs. For example, in Power Solutions, we have utilized our extensive patent portfolio, process technologies and analog and mixed-signal technology platform to develop 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. 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 that 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 seek to increase our customer penetration by more closely aligning our product roadmap with those of our key customers and take 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 improved base of distributors, especially to aid the growth of our power management business. We expect to continue to strengthen 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, and became a major supplier of the product within two years. 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, 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.

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***Drive Execution Excellence.*** We intend to improve our execution through a number of management initiatives, 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.

***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. By utilizing our manufacturing facilities for both our Display Solutions and Power Solutions products and our Semiconductor Manufacturing Services customers, we seek to maximize return on our capital investments and our cash flow generation.



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#### **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 operations. Our goal is to leverage our experience and development initiatives across multiple end markets and utilize our understanding of system-level issues our customers face to introduce new technologies that enable our customers to develop more advanced, higher performance products.

For example, in 2013, we introduced a range of intelligent sensor product families featuring 0.18 micron mixed signal & analog technology with low power consumption. The MagnaChip sensor families include e-Compass and digital Hall sensors. MagnaChip's intelligent sensors provide cost-effective features such as small form-factor, multi-function integration and low power consumption as a result of its use of 0.18 micron analog and mixed-signal technology and advanced design capabilities.

Our display technology portfolio includes building blocks for display drivers and timing controllers, processor and interface technologies, as well as sophisticated production techniques, such as chip-on-glass (COG), which enables the manufacture of thinner displays. Our advanced display drivers incorporate LTPS and AMOLED panel technologies that enable the highest resolution displays. Furthermore, we are developing a broad intellectual property portfolio to improve the power efficiency of displays, including the development of our contents-based automatic brightness control (CABC) and automatic current limit (ACL).

We have a long history of specialized process technology development and have a number of distinctive process implementations. We have approximately 377 process flows we can utilize for our products and offer to our Semiconductor Manufacturing Services customers. Our process technologies include standard CMOS, high voltage CMOS, ultra-low leakage high voltage CMOS, low noise CMOS with embedded BCD and BCDMOS. Our manufacturing processes incorporate embedded memory solutions, such as static random access memory (SRAM), one-time programmable (OTP) memory, multiple-time programmable (MTP) memory, electrical fuse, EEPROM and single-transistor random access memory (1TRAM). More broadly, we focus extensively on processes that reduce die size across all of the products we manufacture, in order to deliver cost-effective solutions to our customers.

Expertise in ultra-high voltage (UHV), high voltage and deep trench BCDMOS process technologies, low power analog and mixed-signal design capabilities and packaging know-how are key requirements in the power management market. We are currently leveraging our capabilities in these areas with products such as AC-DC converters, DC-DC converters, linear regulators, including LDO, regulators and analog switches and power MOSFETs. We believe our system-level understanding of applications such as LCD televisions and mobile phones will allow us to more quickly develop and customize power management solutions for our customers in these markets.

#### **Products and Services by Business Line**

Our broad portfolio of products and services addresses multiple high-growth, consumer-focused end markets. A key component of our product strategy is to supply multiple related product and service offerings to each of the end markets that we serve.

#### **Display Solutions**

**Display Driver Characteristics.** Display drivers deliver defined analog voltages and currents that activate pixels to exhibit images on displays. The following key characteristics determine display driver performance and end-market application:

**Resolution and Number of Channels.** Resolution determines the level of detail displayed within an image and is defined by the number of pixels per line multiplied by the number of lines on a display. For large displays, higher resolution typically requires more display drivers for each panel. Display drivers that have a greater number of channels, however, generally require fewer display drivers for each panel and command a higher selling price per unit. Mobile displays, conversely, are typically single chip solutions designed to deliver a specific resolution. We cover resolutions ranging from WQVGA (240RGB x 432) to UHD (3840 x 2160).

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**Color Depth.** Color depth is the number of colors that can be displayed on a panel. For example, for TFT-LCD panels, 262 thousand colors are supported by 6-bit source drivers; 16 million colors are supported by 8-bit source drivers; and 1 billion colors are supported by 10-bit source drivers.

**Operational Voltage.** Display drivers are characterized by input and output voltages. Source drivers typically operate at input voltages from 1.62 to 3.6 volts and output voltages between 9 and 18 volts. Gate drivers typically operate at input voltages from 1.8 to 3.6 volts and output voltages from 30 to 40 volts. Lower input voltage results in lower power consumption and electromagnetic interference (EMI).

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**Gamma Curve.** The relationship between the light passing through a pixel and the voltage applied to the pixel by the source driver is referred to as the gamma curve. The gamma curve of the source driver can correct some imperfections in picture quality in a process generally known as gamma correction. Some advanced display drivers feature up to three independent gamma curves to facilitate this correction.

**Driver Interface.** Driver interface refers to the connection between the timing controller and the display drivers. Display drivers increasingly require higher bandwidth interface technology to address the larger data transfer rate necessary for higher definition images. The principal types of interface technologies are embedded clock point to point interface (EPI), advance intra panel interface (AIPI), mini-low voltage differential signaling (m-LVDS), ultra slim interface (USI) and mobile industry processor interface (MIPI).

**Package Type.** The assembly of display drivers typically uses chip-on-film (COF) and COG package types.

**Large Display Solutions.** We provide display solutions for a wide range of flat panel display sizes used in LCD televisions, including ultra-high definition televisions, or UHD TVs, HD TVs, LED TVs, 3D TVs, OLED televisions, LCD monitors, notebooks, ultrabooks and tablet PCs.

Our large display solutions include source and gate drivers and timing controllers with a variety of interfaces, voltages, frequencies and packages to meet customers' needs. These products include advanced technologies such as high channel count, with products in mass production to provide up to 1,440 channels. Our large display solutions are designed to allow customers to cost-effectively meet the increasing demand for high resolution displays. We focus extensively on reducing the die size of our large display drivers and other solutions products to reduce costs without having to migrate to smaller geometries. For example, we have implemented several solutions to reduce die size in large display drivers, such as optimizing design schemes and design rules and applying specific technologies that we have developed internally. We have recently introduced a number of new large display drivers with reduced die size.

The table below sets forth the features of our products, both in mass production and in customer qualification, which is the final stage of product development, for large-sized displays:

<b>Product</b>	<b>Key Features</b>	<b>Applications</b>
TFT-LCD Source Drivers	480 to 1440 output channels	UHD/HD/LED/3D TVs
	6-bit (262 thousand colors), 8-bit (16 million colors), 10-bit (1 billion colors)	Ultrabooks, notebooks
	Output voltage ranging from 9V to 18V	LCD/LED monitors
	Low power consumption and low EMI	Automotive*
	COF package types	
	EPI, m-LVDS, AiPi, USI interface technologies	
TFT-LCD Gate Drivers	272 to 768 output channels	Tablet PCs
	Output voltage ranging from 30V to 40V	HD/LED/3D TVs
	COF and COG package types	Notebooks
Timing Controllers	Wide range of resolutions	Tablet PCs
		Notebooks

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	EPI, m-LVDS, AAPI, MIPI interface technologies	LCD/3D monitors
AMOLED Source Drivers	Input voltage ranging from 1.6V to 3.6V 960* output channels 10 bit (1 billion colors) Output voltage: 18V COF package type EPI interface technology	OLED TVs

\* In customer qualification stage

**Mobile Display Solutions.** Our mobile display solutions incorporate the industry's most advanced display technologies, such as AMOLED and LTPS, as well as high-volume technologies such as a-Si (amorphous silicon) TFT. Our mobile display products offer specialized capabilities, including high speed serial interfaces, such as mobile display digital interface (MDDI), MIPI, reduced swing differential signaling interface (RSDS) and logic-based OTP memory. We focus extensively on reducing the die size of our mobile display drivers and other solutions products to reduce costs without having to migrate to smaller geometries. For example, we have implemented several solutions to reduce die size in mobile display drivers, such as optimizing

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design schemes and design rules and applying specific technologies that we have developed internally. Further, we are building a distinctive intellectual property portfolio that allows us to provide features that reduce power consumption, such as CABC and ACL. This intellectual property portfolio will also support our power management product development initiatives, as we leverage our system level understanding of power efficiency.

The following table summarizes the features of our products, both in mass production and in customer qualification, which is the final stage of product development, for mobile displays:

<b>Product</b>	<b>Key Features</b>	<b>Applications</b>
AMOLED	Resolutions of WVGA, QHD, WXGA and FHD	Smartphones
	Color depth 16 million	Game consoles
	MIPI interface	Digital still cameras
	Logic-based OTP	Tablet PCs
	ABC, ACL	
LTPS	Resolutions of WQVGA, VGA, WSVGA, WVGA and DVGA	Smartphones
	Color depth 16 million	Game consoles
	MDDI, MIPI interface	Digital still cameras
	Logic-based OTP	
	Separated gamma control	
a-Si TFT	Resolutions of WQVGA, HVGA and WVGA	Smartphones
	Color depth 16 million	Mobile phones
	RSDS, MDDI, MIPI interface	Game consoles
	CABC	Digital still cameras
	Separated gamma control	Automotive

**Sensor IC Solutions.** We provide a range of intelligent sensor product families featuring 0.18 micron analog and mixed-signal technology with low power consumption. The MagnaChip sensor families target the growing market for applications ranging from smartphone, tablet PC, and navigation to medical devices. The MagnaChip sensor families include e-Compass and digital Hall sensors. MagnaChip's intelligent sensors provide cost-effective features such as small form-factor and multi-function integration as a result of its use of 0.18 micron analog and mixed-signal technology and advanced design capabilities, as compared to currently available products.

Sensors are used for many applications and their use is growing rapidly. Furthermore, today's increasingly sophisticated devices require an emerging class of intelligent sensors in mass volume. For instance, in handheld devices magnetic sensors are essential to implement

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compass-functionality and to detect the timing of opening and closing of a flip cover. MagnaChip's intelligent sensor families address these magnetic sensor requirements with a new style of design made possible by integrating multiple functions.

The following table summarizes the features of our products, both in mass production and in customer qualification, which is the final stage of product development, for sensor IC:

<b>Product</b>	<b>Key Features</b>	<b>Applications</b>
<b>Electronic Compass IC</b>	0.18 micron low-noise technology	Smartphones
	Compass algorithm and magnetic field scanning	Tablet PCs
	16-bit sigma-delta analog-digital convertor	
	I2C bus interface	

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<b>Product</b>	<b>Key Features</b>	<b>Applications</b>
<b>Digital Hall Sensor IC</b>	0.18 micron low-noise mixed-signal technology	Smartphones
	Proprietary Hall technology	Tablet PCs
	10-bit analog-digital converter and embedded logic controller	
	I2C digital interface	

**Power Solutions**

We develop, manufacture and market power management solutions for a wide range of end-market customers. The products include MOSFETs, power modules, LED drivers, DC-DC converters, AC-DC converters, analog switches and linear regulators, such as LDOs.

**MOSFETs.** Our MOSFETs include low-voltage Trench MOSFETs, 20V to 100V, high-voltage Planar MOSFETs, 200V through 700V, and super junction MOSFETs, 600V through 700V. MOSFETs are used in applications to switch, shape or transfer electricity under varying power requirements. The key application segments are smartphones, mobile phones, LCD, LED and 3D televisions, desktop PCs, notebooks, tablet PCs, servers, lighting and power supplies for consumer electronics and industrial equipment. MOSFETs allow electronics manufacturers to achieve specific design goals of high efficiency and low standby power consumption. For example, computing solutions focus on delivering efficient controllers and MOSFETs for power management in VCORE, DDR and chipsets for audio, video and graphics processing systems.

**Power Modules.** Power modules are used in broad range of medium-to-high power industrial applications and in many consumer appliances such as UPSs, power supplies, motor drives, solar inverters, welding machines, refrigerators and air conditioners.

**LED Drivers.** LED backlighting drivers serve the fast-growing LCD panel backlighting market for LCD, LED and 3D televisions, LCD monitors, notebooks, smartphones and tablet PCs. Our products are designed to provide high efficiency and wide input voltage range, as well as PWM dimming for accurate white LED dimming control. LED lighting drivers have a wide input voltage range applicable to incandescent bulb and fluorescent lamp replacement.

**DC-DC and AC-DC Converters.** We offer DC-DC and AC-DC converters targeting mobile applications and high power applications like LCD televisions, notebooks, smartphones, mobile phones and display modules. We expect our DC-DC and AC-DC converters will meet customer green power requirements by featuring wide input voltage ranges, high efficiency and small size.

**Analog Switches and Linear Regulators.** We also provide analog switches and linear regulators for mobile applications. Our products are designed for high efficiency and low power consumption in mobile applications.

Our power management solutions enable customers to increase system stability and reduce heat dissipation and energy use, resulting in cost savings for our customers and consumers, as well as environmental benefits. Our in-house process technology capabilities and eight-inch wafer production lines increase efficiency and contribute to the competitiveness of our products.

The following table summarizes the features of our products, both in mass production and in customer qualification, which is the final stage of product development:

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<b>Product</b>	<b>Key Features</b>	<b>Applications</b>
Low Voltage MOSFET	Voltage options of 20V-100V	Smartphones and mobile phones
	Advanced Trench MOSFET Process	Tablet PCs
	High cell density	Ultrabooks and notebooks
	Advanced packages to enable reduction of PCB mounting area	LCD/LED/3D TVs
		Desktop PCs
		Servers



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<b>Product</b>	<b>Key Features</b>	<b>Applications</b>
High Voltage MOSFET	Voltage options of 200V-700V	Tablet PC/mobile phone adaptors
	R2FET (rapid recovery) option to shorten reverse diode recovery time	Power supplies for consumer electronics
	Zenor FET option for MOSFET protection for abnormal input	Industrial chargers and adaptors
	Advanced Planar MOSFET Process	Lighting (ballast, HID, LED)
	Advanced packages to enable reduction of PCB mounting area	Industrial equipment
Super Junction MOSFET	Voltage options of 600V-700V	LCD/LED/3D TVs
	Low $R_{DS(ON)}$	Lightings (ballast, HID, LED)
	Epi stack process	Smartphones
		Notebooks
Power Modules	Voltage options of 400V/600V/ 1200V	Servers
	IGBT modules/FRD modules	Industrial applications
	PIM (Power Integrated Module)	Consumer appliances
LED Backlighting Drivers	Current options from 50A to 450A	
	High efficiency, wide input voltage range	Tablet PCs and notebooks
	Advanced BCDMOS process	Smartphones
	OCP, SCP, OVP and UVLO protections	LED/3D TVs
	Accurate LED current control and multi-channel matching	LED monitors
	Programmable current limit, boost up frequency	

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<b>Product</b>	<b>Key Features</b>	<b>Applications</b>
LED Lighting Drivers	High efficiency, wide input voltage range  Simple solutions with external components fully integrated  Advanced high voltage BCDMOS process  Accurate LED current control and high power factor and low THB	AC and DC LED lighting
DC-DC Converters	High efficiency, wide input voltage range  Advanced BCDMOS process  Fast load and line regulation  Accurate output voltage  OCP, SCP and thermal protections	LCD/LED/3D TVs  Smartphones/mobile phones  Notebooks
AC-DC Converter	Wide control range for high power application (>150W)  Advanced BCDMOS process  High Precision Voltage Reference  Very low startup current consumption	LCD/LED/3D TVs
Analog Switches	<i>USB Switches</i>  Low C (on), 7.0pF (typical) limits signal distortion  Low R (on), 4.0 W (typical)  Advanced CMOS process  <i>Audio Switches</i>  Negative Swing Support  Low R (on), 0.4 W (typical)  High ESD protection, 13kV  Advanced CMOS process	Mobile phones
Linear Regulators	Single LDOs  Low Noise Output Linear $\mu$ Cap LDO Regulator	Mobile phones

2.3V to 5.5V input voltage and 150mA,  
300mA output current

Small package size of DFN type

Advanced CMOS process

### **Semiconductor Manufacturing Services**

We provide semiconductor manufacturing services to analog and mixed-signal semiconductor companies. We have approximately 377 process flows we offer to our Semiconductor Manufacturing Services customers. We also 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 Semiconductor 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. We refer to our approach of delivering specialized services to our customers as our application-specific technology strategy. We differentiate ourselves through the depth of our intellectual property portfolio, ability to customize process technology to meet the customers' requirements effectively, long history in this business and reputation for excellence.

Our Semiconductor Manufacturing Services customers typically serve high-growth and high-volume applications in the consumer, computing and wireless end markets. We strive to be the primary manufacturing source for our Semiconductor Manufacturing Services customers.

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**Mixed-Signal.** Mixed-signal process technology is used in devices that require conversion of light and sound into electrical signals for processing and display. Our mixed-signal processes include advanced technologies such as low-noise process using triple gate, which uses less power at any given performance level. Micro-electromechanical (MEMS) process technology allows the manufacture of components that use electrical energy to generate a mechanical response. For example, MEMS devices are used in the accelerometers and gyroscopes of mobile phones.

**Power.** Power process technology, such as BCD, includes high-voltage capabilities as well as the ability to integrate functionalities, such as self-regulation, internal protection and other intelligent features. Unique process features, such as deep trench isolation, are suited for chip shrink and device performance enhancement.

**High Voltage CMOS.** High-voltage CMOS process technology facilitates the use of high-voltage levels in conjunction with smaller transistor sizes. This process technology includes several variations, such as bipolar processes, which use transistors with qualities well suited for amplifying and switching applications, mixed-mode processes, which incorporate denser, more power efficient FETs, and thick metal processes.

**Non-Volatile Memory.** Non-volatile memory (NVM), process technology enables the integration of non-volatile memory cells that allow retention of the stored information even when power is removed from the circuit. This type of memory is typically used for long-term persistent storage.

The table below sets forth the key process technologies in Semiconductor Manufacturing Services that we currently offer to customers:

<b>Process</b>	<b>Technology</b>	<b>Device</b>	<b>Application</b>
Mixed-Signal	0.13-0.8 $\mu$ m	Analog to digital converter	Smartphones
	Low noise	Digital to analog converter	Tablet PCs
	Ultra low power	Audio codec	Ultrabooks
	Triple gate	Chipset	PC peripherals
		RF switch	DVDs
Power	0.18-0.5 $\mu$ m	Digital tunable capacitor	
		Power management	Smartphones
	BCD	LED driver	Tablet PCs
	Deep trench isolation	High power audio amp	Ultrabooks
	MOSFET	Power Over Ethernet	LCD TVs
	Schottky diode	DC/DC converter	LED lighting

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Zener diode

LCD monitors

Ultra high voltage

Automotive

Thick metal

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<b>Process</b>	<b>Technology</b>	<b>Device</b>	<b>Application</b>
High-Voltage CMOS	0.11-2.0µm	Display driver	Smartphones
	5V-200V	CSTN driver	Tablet PCs
	Bipolar		LCD TVs
			Desktop PCs
NVM	0.13-0.5µm	Microcontroller	Smartphones
		EEPROM	Tablet PCs
	eFlash	Electronic tag memory	Industrial controllers
	OTP	Hearing aid controller	Medical equipment
			Park distance control sensors for automotive
		Game consoles	

**Sales and Marketing**

We focus our sales and marketing strategy on continuing to grow and leverage our existing relationships with leading consumer electronics OEMs, while expanding into industrial and automotive end markets. For Semiconductor Manufacturing Services foundry, we focus on analog and mixed-signal semiconductor companies who see the benefit of our innovative technology and cost structure. We believe our close collaboration with customers allows us to align our product and process technology development with our customers' existing and future needs. Because our customers often service multiple end markets, our product sales teams are organized by customers within the major geographies. We believe this facilitates the sale of products that address multiple end-market applications to each of our customers. Our Semiconductor Manufacturing Services sales teams focus on marketing our services to analog and mixed-signal semiconductor companies that require specialty manufacturing processes.

We sell our products through a direct sales force and a network of authorized agents and distributors. We have strategically located our sales and technical support offices near our customers. Our direct sales force consists primarily of representatives co-located with our design center in Korea, as well as our local sales and support offices in the United States, Japan, Greater China and Europe. We have a network of agents and distributors in Korea, the United States, Japan, Greater China and Europe. For the years ended December 31, 2013 and 2012, we derived 65% and 75% of net sales through our direct sales force, respectively, and 35% and 25% of net sales through our network of authorized agents and distributors, respectively.

**Research and Development**

Our research and development efforts focus on intellectual property, design methodology and process technology for our complex analog and mixed-signal semiconductor products and services. Research and development expenses for the years ended December 31, 2013, 2012 and 2011, were \$87.9 million, \$76.3 million and \$76.6 million, respectively, representing 12.0%, 9.4% and 10.3% of net sales, respectively.

**Customers**

We sell our Display Solutions and Power Solutions products and Sensor solutions to consumer, computing and industrial electronics OEMs, original design manufacturers and electronics manufacturing services companies, as well as subsystem designers. We sell our semiconductor manufacturing services to analog and mixed-signal semiconductor companies. For the years ended December 31, 2013, 2012 and 2011, our ten largest customers accounted for 59%, 61% and 60% of our net sales, respectively. Substantially all of our sales to these customers are in our

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Display Solutions line. For the year ended December 31, 2013, sales to Samsung Display Corporation represented 11.3% of the Company's net sales and 40.9% of our Display Solutions division's net sales. For the year ended December 31, 2012, sales to LG Display represented 11.5% of the Company's net sales and 31.9% of our Display Solutions division's net sales. For the year ended December 31, 2013, we recorded revenues of \$100.8 million from customers in the United States and \$633.4 million from all foreign countries, of which 49.5% was from Korea, 23.4% from Taiwan, 3.4% from Japan and 15.2% from Greater China. For the year ended December 31, 2012, we recorded revenues of \$124.5 million from customers in the United States and \$682.9 million from all foreign countries, of which 53.6% was from Korea, 19.0% from Taiwan, 3.5% from Japan and 15.0% from Greater China.

### **Intellectual Property**

As of December 31, 2013, our portfolio of intellectual property assets included approximately 4,045 registered patents and 344 pending patent applications. Approximately 3,167 and 134 of our patents and pending patents are novel in that they are not a foreign counterpart of an existing patent or patent application. Because we file patents in multiple jurisdictions, we additionally have approximately 1,088 registered and pending patents that relate to identical technical claims in our base patent portfolio. Our patents expire at various times approximately over the next 18 years. While these patents are in the aggregate important to our competitive position, we do not believe that any single registered or pending patent is material to us.

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We have entered into exclusive and non-exclusive licenses and development agreements with third parties relating to the use of intellectual property of the third parties in our products and design processes, including licenses related to embedded memory technology, design tools, process simulation tools, circuit designs and processor cores. Some of these licenses, including our agreements with Silicon Works Co., Ltd. and ARM Limited, are material to our business and may be terminated by the licensors prior to the expiration of these licenses should we fail to cure any breach under such licenses. Our license with Silicon Works Co., Ltd. relates to our large display drivers, and our license from ARM Limited primarily relates to product lines in our Semiconductor Manufacturing Services business. The loss of either license could have a material adverse impact on our results of operations. Additionally, in connection with the Original Acquisition, SK Hynix retained a perpetual license to use the intellectual property that we acquired from SK Hynix in the Original Acquisition. Under this license, SK Hynix and its subsidiaries are free to develop products that may incorporate or embody intellectual property developed by us prior to October 2004.

### **Competition**

We operate in highly competitive markets characterized by rapid technological change and continually advancing customer requirements. Although no one company competes with us in all of our product lines, we face significant competition in each of our market segments. Our competitors include other independent and captive manufacturers and designers of analog and mixed-signal integrated circuits, including display driver and power management semiconductor devices, as well as companies providing specialty manufacturing services.

We compete based on design experience, manufacturing capabilities, the ability to service customer needs from the design phase through the shipping of a completed product, length of design cycle and quality of technical support and sales personnel. Our ability to compete successfully will depend on internal and external variables, both within and outside of our control. These variables include the timeliness with which we can develop new products and technologies, product performance and quality, manufacturing yields, capacity availability, customer service, pricing, industry trends and general economic trends.

### **Employees**

Our worldwide workforce consisted of 3,479 employees (full- and part-time) as of December 31, 2013, of which 420 were involved in sales, marketing, general and administrative, 449 in research and development (including 237 with advanced degrees), 118 in quality, reliability and assurance and 2,492 in manufacturing (comprised of 369 in engineering and 2,123 in operations). As of December 31, 2013, 2,241 employees, or approximately 64% of our workforce, were represented by the MagnaChip Semiconductor Labor Union. As of December 31, 2014, our workforce consisted of 3,399 employees, of which 2,144 employees, or approximately 63% of our workforce, were represented by the MagnaChip Semiconductor Labor Union.

### **Environmental**

We are subject to a variety of environmental, health and safety laws and regulations in each of the jurisdictions in which we operate, governing, among other things, air emissions, wastewater discharges, the generation, use, handling, storage and disposal of, and exposure to, hazardous substances (including asbestos) and waste, 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. For example, the Korean government's Enforcement Decree to the Framework Act on Low Carbon Green Growth became effective in April 2010. Certain designated businesses, including our Korean subsidiary, were required to submit plans to reduce greenhouse emissions and energy consumption. Our Korean subsidiary set emissions and consumption targets and in 2011 negotiated an implementation plan with Korean governmental authorities. Each year thereafter, our Korean subsidiary was required to agree on emissions and consumption targets with Korean governmental authorities and submit an independently verified report of prior year's compliance. Beginning in 2015, our Korean subsidiary became subject to a new set of greenhouse gas emissions regulation, the Korean Emissions Trading Scheme, or K-ETS, under the Act on Allocation and Trading of Greenhouse Gas Emission Allowances. Under K-ETS, our Korean subsidiary was allocated a certain amount of emissions allowance in accordance with the National Allocation Plan prepared by the Korean government and will be required to meet its allocated target by either reducing the emission or purchasing the allowances from other participants in the emission trading market. There can be no assurance that we have been or will be in compliance with all of these 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 and 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.





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**Raw Materials**

We use processes that require specialized raw materials that are generally available from a limited number of suppliers. We continue to attempt to qualify additional suppliers for our raw materials. The SEC, as mandated by the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, adopted new disclosure regulations for public companies that manufacture products containing certain minerals that are mined from the Democratic Republic of Congo and adjoining countries. These conflict minerals are commonly found in metals used in the manufacture of semiconductors. The implementation of these new requirements could adversely affect the sourcing, availability and pricing of metals used in the manufacture of our products. See Item 1A. Risk Factors Risks Related to Our Business Compliance with new regulations regarding the use of conflict minerals could limit the supply and increase the cost of certain raw materials used in manufacturing our products.

**Geographic Financial Information**

For a description of the distribution of our net sales by geographic region, see Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations Results of Operations Comparison of Years Ended December 31, 2013 and 2012 Net Sales by Geographic Region, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations Results of Operations Comparison of Years Ended December 31, 2012 and December 31, 2011 Net Sales by Geographic Region and Note 19. Geographic and Segment Information to our consolidated financial statements under Item 8. Financial Statements and Supplementary Data included elsewhere in this Report.

**Available Information**

Our principal executive offices are located at: c/o MagnaChip Semiconductor S.A., 1, Allée Scheffer, L-2520 Luxembourg, Grand Duchy of Luxembourg, and our telephone number is (352) 45-62-62. Our website address is [www.magnachip.com](http://www.magnachip.com). Our annual, quarterly and current reports on Forms 10-K, 10-Q or 8-K, respectively, and all amendments thereto filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act, can be accessed, free of charge, at our website as soon as practicable after such reports are filed with the SEC. In addition, our Corporate Governance Guidelines, Code of Business Conduct and Ethics, Audit Committee Charter, Compensation Committee Charter, Nominating and Governance Committee Charter and Risk Committee Charter are available on our website. Information contained on our website does not constitute, and shall not be deemed to constitute, part of this Report and shall not be deemed to be incorporated by reference into this Report.

You may read and copy any materials we file with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Washington, DC 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. In addition, the SEC maintains an internet site, [www.sec.gov](http://www.sec.gov), from which you can access our annual, quarterly and current reports on Forms 10-K, 10-Q and 8-K, respectively, and all amendments to these materials after such reports and amendments are filed with the SEC. In addition, you may request a copy of any of these filings, at no cost, by writing or telephoning us at the following address or phone number: c/o MagnaChip Semiconductor, Inc., 20400 Stevens Creek Boulevard, Suite 370, Cupertino, CA 95014, Attention: General Counsel and Secretary; the telephone number at that address is (408) 625-5999.

**Item 1A. Risk Factors**

*You should carefully consider the risk factors set forth below as well as the other information contained in this Report. 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 common stock could decline and you could lose all or part of your investment in our common stock. 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 Restatement, Failure to File Timely Periodic Reports with the SEC and Our Internal Control Over Financial Reporting**

*We face risks related to the Restatement and being delayed in our SEC reporting obligations if we are unable to resume a timely filing schedule.*

As discussed in this Report in the Explanatory Note and in Note 2 to our consolidated financial statements under Item 8. Financial Statements and Supplementary Data in this Report, our Audit Committee concluded that certain of the Company's previously issued financial statements should no longer be relied upon because of certain errors in those financial statements.

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As a result of the Restatement, our SEC reporting obligations have been delayed prior to the filing date of this Report and the concurrent filing of our 2014 Form 10-Qs, and we cannot assure when we will resume a timely filing schedule with respect to our future SEC reports, including our Annual Report on Form 10-K for the year ended December 31, 2014 (the 2014 Form 10-K ), for which there is significant risk that we will be unable to timely file. Even after we complete this Report and the concurrent filing of our 2014 Form 10-Qs, we expect to continue to face many of the risks and challenges related to the Restatement, including the following:

we may fail to remediate material weaknesses in our internal control over financial reporting and other material weaknesses may be identified in the future, which would adversely affect the accuracy and timing of our financial reporting;

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the processes undertaken to effect the Restatement may not have been adequate to identify and correct all errors in our historical financial statements and, as a result, we may discover additional errors and our financial statements remain subject to the risk of future restatement;

our failure to have current financial information available;

the risks associated with the failure to timely file all of our SEC reports and consequences of prior or future defaults arising under our bond indenture related to our reporting obligations contained therein;

the risk that the delay in filing our annual report and any failure to satisfy other New York Stock Exchange ( NYSE ) listing requirements could cause the NYSE to commence suspension or delisting procedures with respect to our common stock;

the outcome of litigation and claims as well as regulatory examinations, investigations, proceedings and orders arising out of the Restatement and the failure by the Company to file SEC reports on a timely basis;

further downgrades or withdrawals of our debt or financial strength credit ratings, which could adversely affect our relationships with distributors and reduce new sales and would increase our costs of, or reduce our access to, future borrowings;

our limitations in entering into certain foreign exchange hedging contracts due to our credit ratings or other issues related to the Restatement;

the incurrence of significant Restatement-related expenses;

diversion of management and other human resources attention from the operation of our business; and

the possible unavailability or higher costs of financing options to fund our ongoing operations or refinance existing indebtedness resulting from the Restatement and the delayed filing of this Report and the 2014 Form 10-Qs.

We cannot assure that all of the risks and challenges described above will be eliminated and that lost business opportunities can be recaptured or that general reputational harm will not persist. If one or more of the foregoing risks or challenges persist, our business, operations and financial condition are likely to be materially and adversely affected.

***We have concluded that there are material weaknesses in our internal control over financial reporting, which have adversely affected our ability to timely and accurately report our results of operations and financial condition. These material weaknesses have not been fully remediated as of the filing date of this Report and we cannot assure that other material weaknesses will not be identified in the future. If we fail to maintain an effective system of internal control over financial reporting, the accuracy and timing of our financial reporting may be adversely affected.***

As reported in Item 9A. Controls and Procedures of this Report, we have concluded that there are material weaknesses in our internal control over financial reporting and that our disclosure controls and procedures were ineffective as of December 31, 2013. It is necessary for us to maintain effective internal control over financial reporting to prevent fraud and errors and to maintain effective disclosure controls and procedures so that we can provide timely and reliable financial and other information. A failure to maintain adequate internal controls may adversely affect our ability to provide financial statements that accurately reflect our financial condition and report information on a timely basis. This could cause investors to lose confidence in our reported financial and other information, cause our securities to trade at a decreased price and cause an adverse effect on our business and results of operations. A failure to remediate material weaknesses in our internal control

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over financial reporting could result in further restatements of financial statements and correction of other information filed with the SEC or otherwise made publicly available.

***The processes undertaken to effect the Restatement may not have been adequate to identify and correct all errors in our historical financial statements and, as a result, we may discover additional errors and our financial statements remain subject to the risk of future restatement.***

The completion of our Restatement involved many months of review and analysis, including highly technical analyses of our contracts and business practices, estimates and assumptions made by management, tax accounting and the proper application of relevant accounting rules and pronouncements. Many of the enhancements and changes to our processes are ongoing as of the filing date of this Report, and we continue to integrate the complex changes we have already made. Given the complexity and scope of these exercises, and notwithstanding the extensive time, effort and expense that went into them, we cannot assure that these processes were adequate to identify and correct all errors in our historical financial statements or that additional accounting errors will not come to light in the future in these or other areas.

While we have performed additional analyses and other procedures, and either implemented or plan to implement and test remediation measures as of the filing date of this Report, the previously identified material weaknesses have not been fully addressed and remediated. We continue to improve our internal control over financial reporting and disclosure controls and procedures by, among other things:

implementing and maintaining a strong control environment, high ethical standards and financial reporting integrity, and communicating these enhanced standards to our employees through various means, including mandatory ethical compliance trainings for all employees;

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building an environment that prioritizes compliance across the enterprise, placing special emphasis on improving internal audits and compliance with the Sarbanes-Oxley Act of 2002 (the Sarbanes-Oxley Act );

improving our risk assessment process to identify, evaluate and report on risks related to the Company's preparation and fair presentation of the financial statements;

implementing additional review of period-end adjusting entries with a detailed checklist, including the involvement of finance and operational executives, in order to strengthen controls over the completeness and accuracy of both recurring and non-recurring journal entries;

improving procedures with respect to the communication, approval, documentation and accounting review of deviations from written sales contracts, including by creating and implementing a new sub-certification process with our management group in order to identify (i) any sales transaction of which terms deviate from written sales contracts, (ii) concessions, and (iii) revisions to contractual terms and conditions; and

strengthening our accounting, finance and internal audit teams by hiring permanent personnel with extensive US GAAP experience, including by facilitating US GAAP training programs for relevant employees.

As a result, we cannot assure that we will not discover additional errors, that future financial reports will not contain misstatements or omissions, that future restatements will not be required, or that we will be able to timely comply with our reporting obligations in the future, including with respect to our 2014 Form 10-K.

We may also be required to amend this Report and/or file other amended reports to effect the Restatement. This would require us to devote substantial internal and external resources and cause us to incur significant fees and expenses for additional audit services as well as accounting and other consulting services. These fees and expenses, as well as the substantial time devoted by our management to make such filings with the SEC, could have a material adverse effect on our business, profitability and financial condition.

***The Restatement has caused substantial delays in filing this Report and other SEC periodic reports, which may result in future delays in our SEC reporting.***

Our ability to resume a timely filing schedule with respect to our SEC reports is subject to a number of contingencies, including whether we continue to identify errors in our consolidated financial statements and effective remediation of the identified material weaknesses in our internal control over financial reporting, including processes and training related thereto.

If we become delayed again in our SEC reporting obligations, investors would need to evaluate certain decisions with respect to our securities in light of a lack of current financial information. Accordingly, if in the future we are not current in our SEC reporting obligations, any investment in our securities would involve a greater degree of risk. Any such lack of current public information may have an adverse impact on investor confidence, which could lead to a reduction in our stock price and market capitalization and an increase in our cost of capital. In addition, if we become delayed again in our SEC reporting obligations, we will be precluded from registering our securities with the SEC for offer and sale. This may preclude us from raising debt or equity financing in the public markets and limit our access to the private markets and could also limit our ability to use stock options and other equity-based awards to attract, retain and provide incentives to our employees.

***If we fail to timely file our 2014 Form 10-K or our other SEC reports, we may incur additional interest charges under the indenture governing our senior notes and/or our bondholders may seek to accelerate the principal amount of our senior notes, which would likely have a material adverse effect on our business, results of operations and financial condition.***

The reporting covenant contained in the indenture relating to our outstanding 6.625% senior notes due 2021 (the 2021 Notes ) requires us to file certain quarterly, annual and current reports with the SEC within the time periods specified in the SEC's rules and regulations applicable to such reports (subject in some cases to applicable extension periods). Additionally, under the Indenture, the trustee or the holders of 25% or more of the outstanding principal amount of the 2021 Notes have the right to notify us if they believe we have breached a covenant under the Indenture

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and may, following any applicable cure periods, declare an event of default under the Indenture and cause the outstanding principal amount of the 2021 Notes to become immediately due and payable.

Because of the delay in filing this Report and certain of our other SEC reports, the trustee under the indenture relating to the 2021 Notes sent notices of default under the indenture initiating the 60-day cure periods thereunder. Pursuant to the terms of the indenture, we elected, for a period of up to 180 days after the initial event of default related to a breach of the reporting covenant, to pay additional interest on the 2021 Notes of 0.25% per annum. If we fail to timely file our 2014 Form 10-K or our other SEC reports, we could again be subject to conditional interest charges in the future. If any such future reporting failure continued past the 60-day cure period and the 180-day additional interest period, the 2021 Notes could be subject to acceleration by the trustee or the holders of 25% or more of the outstanding principal amount thereof. Any such acceleration would likely have a material adverse effect on our business, results of operations, and financial condition.

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*The delay in filing this Report with the SEC and any failure to satisfy other NYSE listing requirements could cause the NYSE to commence suspension or delisting procedures with respect to our common stock.*

The Company was notified by the NYSE that, as a result of its failure to timely file an Annual Report on Form 10-K for the fiscal year ended December 31, 2013 with the SEC, it was subject to the procedures specified in Section 802.01E (SEC Annual Report Timely Filing Criteria) of the Listed Company Manual of the NYSE. Pursuant to Section 802.01E, on September 5, 2014, the Company made a request to the NYSE that its shares be permitted to continue to trade on the NYSE for an additional six months while the Company completed its restatement of financial statements for prior periods and prepared this Report. On October 3, 2014, the NYSE notified the Company that its shares may continue to trade on the NYSE until April 1, 2015, subject to reassessment on an ongoing basis. We believe that the filing of this Report satisfies the NYSE's requirement to file an Annual Report on Form 10-K for the fiscal year ended December 31, 2013.

Any other failure to satisfy NYSE listing requirements (including, among others, the filing of our 2014 Form 10-K within the grace period provided by the NYSE, if any), if not waived by the NYSE, could cause the NYSE to commence suspension or delisting procedures with respect to our common stock. The commencement of any suspension or delisting procedures and any actual suspension or delisting of our common stock by the NYSE remains, at all times, at the discretion of the NYSE and would be publicly announced by the NYSE. The delisting of our common stock from the NYSE may have a material adverse effect on us by, among other things, causing investors to dispose of our shares and limiting:

the liquidity of our common stock;

the market price of our common stock;

the number of institutional and other investors that will consider investing in our common stock;

the availability of information concerning the trading prices and volume of our common stock;

the number of broker-dealers willing to execute trades in shares of our common stock; and

our ability to obtain equity or debt financing for the continuation of our operations.

*The outcome of litigation and other claims as well as regulatory examinations, investigations, proceedings and orders arising out of the Restatement and the failure by the Company to file SEC reports on a timely basis are unpredictable, and any orders, actions or rulings not in our favor could have a material adverse effect on our financial condition, liquidity or results of operations.*

The circumstances which gave rise to the Restatement and the related SEC filing delays continue to create the risk of litigation and claims by investors and examinations, investigations, proceedings and orders by regulatory authorities, which could be expensive and damaging to our business and financial condition.

For example, following the Company's initial announcement of the restatement in March 2014, a purported class action lawsuit was filed against the Company and certain of the Company's current and now-former officers. On September 30, 2014, an amended complaint was filed against the Company, certain current and now-former officers of the Company, certain members of the Company's Board of Directors and a shareholder of the Company, alleging violations of Sections 10(b) and 20(a) of the Exchange Act and Rule 10b-5 promulgated thereunder.

In addition, in March 2014, the Company voluntarily reported to the SEC that the Audit Committee had determined that the Company incorrectly recognized revenue on certain transactions and as a result would restate its financial statements, and that the Audit Committee had commenced the Independent Investigation. Over the course of 2014, the Company voluntarily produced documents to the SEC regarding the



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various accounting issues identified during the Independent Investigation, and whether the Company's hiring of an accountant from the Company's independent registered public accounting firm impacted that accounting firm's independence. On July 22, 2014, the Staff of the SEC's Division of Enforcement obtained a Formal Order of Investigation. The Company will continue to cooperate with the SEC in this investigation. See Item 3. Legal Proceedings.

The Restatement and the failure by the Company to timely file certain of its SEC reports, as well as the reported material weaknesses in internal control over financial reporting, may subject the Company to a broad range of potential actions that may be taken against the Company by the staff of the SEC, including a cease and desist order, suspension of trading of our securities, deregistration of our securities and/or the assessment of possible civil monetary penalties.

Any orders, actions or rulings relating to any of the foregoing that are not in our favor could have a material adverse effect on our financial condition, liquidity or results of operations.

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*The events that caused the need for this Restatement and the failure to timely file this Report and certain of our other SEC reports have resulted in certain rating agencies downgrading our credit and debt ratings, and further credit rating downgrades of our debt or financial strength ratings or withdrawal of these ratings are possible. These downgrades or withdrawals could adversely affect our relationships with customers, suppliers and distributors, adversely affect our operating results, and increase our costs of, or reduce our access to, future borrowings.*

Rating agencies assign us debt ratings, based in each case on their opinions of the Company's ability to meet its respective financial obligations.

Our ratings relative to our competitors may affect our competitive position. The Company and its debt securities have been placed on negative credit ratings watch and/or downgraded by certain rating agencies in connection with the events that caused the need for this Restatement and the failure to timely file this Report and the 2014 Form 10-Qs. These recent developments and any future rating downgrades or withdrawals of ratings may cause reputational damage, which could materially and adversely affect our relationships with our customers, suppliers and distributors, as well as our ability to borrow. At this time we cannot predict what further actions rating agencies may take, or what actions we may take in response, but these downgrades and/or future downgrades and withdrawals could have a material adverse effect on our results of operations, hedging activities, cost of capital and liquidity.

*We have incurred and expect to continue to incur significant expenses related to the Restatement, the remediation of deficiencies in our internal control over financial reporting and disclosure controls and procedures, preparation of this Report and the 2014 Form 10-Qs and related investigation and defense costs.*

We have devoted and expect to continue to devote substantial internal and external resources to remediation efforts relating to the Restatement and the preparation and filing of this Report and the 2014 Form 10-Qs. As a result of these efforts, we have incurred and expect that we will continue to incur significant incremental fees and expenses for additional auditor services, financial and other consulting services, legal services and additional interest payments, as well as the implementation and maintenance of systems and processes that will need to be updated, supplemented or replaced. These expenses, as well as the substantial time devoted by our management towards identifying and addressing any internal weaknesses, could have a material adverse effect on our business, profitability and financial condition.

*The Restatement process and the preparation of this Report and the 2014 Form 10-Qs have diverted management and other human resources from the operation of our business. The absence of timely and accurate financial information has hindered and may in the future hinder our ability to effectively manage the business of the Company.*

The Restatement process and the preparation of this Report and the 2014 Form 10-Qs have diverted, and continue to divert, management and other human resources from the operation of our business. The Board of Directors, members of management, and the accounting, legal, administrative and other staff of the Company have spent, and continue to spend, significant time on the Restatement preparation of this Report and the 2014 Form 10-Qs, related disclosures and remediation of disclosure controls and procedures and internal control over financial reporting of the Company and its subsidiaries. These resources have been, and will likely continue to be, diverted from the strategic and day-to-day management of our business and may have an adverse effect on our ability to accomplish the strategic objectives of the Company.

*The Restatement and the delayed filing of this Report and the 2014 Form 10-Qs could adversely impact our ability to access the capital markets and other financing arrangements.*

Our ability to obtain financing, if needed, depends upon many factors, including our business prospects and creditworthiness as well as external economic conditions and general liquidity in the credit and capital markets. In light of the Restatement and the delay in filing this Report and the 2014 Form 10-Qs, we may be unable, if needed, to secure outside financing to fund ongoing operations and for other capital needs, including the refinancing of our 2021 Notes if necessary. Any sources of financing that may be available to us could also be at higher costs and require us to satisfy more restrictive covenants, which could limit or restrict our operations, cash flows and earnings. We cannot assure that additional financing would be available to us, or be sufficient or available on satisfactory terms. In addition, unless all current periodic reports and financial statements are filed with the SEC, we will be precluded from registering our securities with the SEC for offer and sale, and the failure to timely file our SEC reports will limit our ability to use short-form Form S-3 registration statements for registering our securities for sale with the SEC until we again meet the timely filing requirements of those forms.

Our current credit ratings may also limit our access to external sources of liquidity and financing. Our ongoing needs for liquidity include interest payments on our 2021 Notes and our operating and capital expenses. In addition, we may from time to time have discrete or unexpected needs for liquidity. Our principal sources of liquidity are cash and cash equivalents on hand, cash from operations and financing activities. We

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do not have in place credit facilities or letters of credit that we could draw upon to meet our liquidity requirements. Without sufficient liquidity, we could be forced to realize investment losses, deplete capital or curtail capital expenditures or certain of our operations, which would adversely impact our results of operations and financial condition.

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**Risks Related to Our Business**

*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 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 expanding line of power management solutions, 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.*

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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.

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*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.

*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. For the years ended December 31, 2013, 2012 and 2011, our ten largest customers accounted for 59%, 61% and 60% of our net sales, respectively. Substantially all of our sales to these customers are in our Display Solutions line. For the year ended December 31, 2013, sales to Samsung Display Corporation represented 11.3% of the Company's net sales and 40.9% of our Display Solutions division's net sales. For the year ended December 31, 2012, sales to LG Display represented 11.5% of the Company's net sales and 31.9% of our Display Solutions division's net sales. 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 within both 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;

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.

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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 initial design-wins 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 customized for certain of our Semiconductor Manufacturing Services customers. To the extent 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.***



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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. 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.

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*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. For example, foreign currency fluctuations had an unfavorable impact on our reported profit margins and operating income from operations for the fiscal years ended December 31, 2013 compared to the fiscal year ended December 31, 2012. As a result of 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 price of the 2021 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. Our Korean subsidiary enters into foreign currency option, forward and zero cost collar contracts in order to mitigate a portion of the impact of U.S. dollar-Korean won exchange rate fluctuations on our operating results. These foreign currency option, forward and zero cost collar contracts typically 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 successive months to our counterparty in exchange for Korean won at specified 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 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 Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations Factors Affecting our Results of Operations for further details.

As of December 31, 2013, we were engaged in exchange rate hedging activities as described in Item 8. Financial Statements and Supplementary Data Notes to Consolidated Financial Statements Note 9. Derivative Financial Instruments. The hedging instruments expired on schedule or were terminated early prior to December 31, 2014, as described in Item 8. Financial Statements and Supplementary Data Notes to Consolidated Financial Statements Note 25. Subsequent Events Early termination of derivative contracts. As a result of the Restatement and rating agency downgrades, certain hedging arrangements became unavailable to us. Accordingly, our operating performance would be affected negatively if the Korean won appreciates against the U.S. dollar. Despite the completion of the Restatement, we cannot assure that such hedging arrangements may become available to us in the near future.

*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. 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 would adversely affect our revenues and profitability.*

As of December 31, 2014, 2,144 employees, or approximately 63% of our employees, were represented by the MagnaChip Semiconductor Labor Union. We can offer no assurance that any 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.

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***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.

***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, Philippines, 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 for any reason, 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 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.

***Compliance with new regulations regarding the use of conflict minerals could limit the supply and increase the cost of certain raw materials used in manufacturing our products.***

The SEC, as mandated by the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, adopted new disclosure regulations for public companies that manufacture products containing certain minerals that are mined from the Democratic Republic of Congo and adjoining countries. These conflict minerals are commonly found in metals used in the manufacture of semiconductors. Manufacturers are also required to disclose their efforts to prevent the sourcing of such minerals and metals produced from them. The implementation of these new requirements could adversely affect the sourcing, availability and pricing of metals used in the manufacture of our products. We may also incur additional costs to comply with the disclosure requirements, including costs related to determining the source of any of the relevant minerals used in our products. We may also face difficulties in satisfying customers who may require that our products be certified as free of conflict materials, which could harm our relationships with these customers and lead to a loss of revenue.

***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

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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

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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 jurisdictions. 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 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.

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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-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.

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

We are party to a land lease and easement agreement with SK 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 SK Hynix, we would have to renegotiate new lease terms with SK Hynix or the new owner of the land. We cannot assure that we will be able to negotiate new lease terms on favorable terms or at all. Because we share certain facilities with SK Hynix, several services that are essential to our business are provided to us by or through SK Hynix under our general service supply agreement with SK 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 SK Hynix were terminated or if SK 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.

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

We are subject to a variety of environmental, health and safety laws and regulations in each of the jurisdictions in which we operate, governing, among other things, 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 became effective. Certain designated businesses, including our Korean subsidiary, were required to submit plans to reduce greenhouse emissions and energy consumption. Our Korean subsidiary first set emissions and consumption targets in 2011 and negotiated an implementation plan with Korean governmental authorities. Each year thereafter, our Korean subsidiary was required to agree on emissions and consumption targets with Korean governmental authorities and submit an independently verified report of prior year's compliance. Beginning in 2015, our Korean subsidiary became subject to K-ETS, a new set of greenhouse gas emissions regulation, under the Act on Allocation and Trading of Greenhouse Gas Emission Allowances. Under K-ETS, our Korean subsidiary was allocated a certain amount of emissions allowance in accordance with the National Allocation Plan prepared by the Korean government, and will be required to meet its allocated target by either reducing the emission or purchasing the allowances from other participants in the emission trading market. If the targets currently allocated to our Korean subsidiary by Korean governmental authorities require 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, as well as cost of procuring emission allowances to cover the excess emissions, which could adversely affect our financial position and results of operations.

*We may 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 may 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. Also, 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.

*Tensions with North Korea could have an adverse effect on us and the market value of our shares.*



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Relations between South Korea and North Korea have been tense throughout Korea's modern history. The level of tension between the two Koreas has fluctuated and may increase abruptly as a result of current and future events. In particular, since the death of Kim Jong-il, the former North Korean ruler, in mid-December 2011, there has been increased uncertainty with respect to

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the future of North Korea's political leadership and concern regarding its implications for political and economic stability in the region. In addition, in recent years, there have been heightened security concerns stemming from North Korea's nuclear weapon and long-range missile programs and increased uncertainty regarding North Korea's actions and possible responses from the international community. North Korea's economy also faces severe challenges, and any adverse economic developments may further aggravate social and political tensions within North Korea.

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, for example, if North Korea experiences a leadership crisis, high-level contacts between South Korea and North Korea break down, or military hostilities occur, could have a material adverse effect on the South Korean economy and on our business, financial condition, results of operations and the market value of our common stock.

***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 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 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, 2013, our total indebtedness was \$223.9 million, net of unamortized discount of \$1.1 million. We are permitted under the indenture governing our outstanding 2021 Notes to incur additional debt under certain conditions, including additional secured debt. If new debt were to be incurred in the future, the related risks that we now face could intensify. Our substantial debt could have important consequences, including:

resulting in an event of default if we fail to satisfy our obligations under our outstanding 2021 Notes or our other debt or fail to comply with the financial or other restricted covenants contained in the indenture governing our outstanding 2021 Notes or agreements governing our other indebtedness, which event of default could result in all of our debt becoming immediately due and payable and could permit our lenders to foreclose on the assets securing any such debt;

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;

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

negatively affecting our ability to fund a change of control offer.

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 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 rating of our outstanding 2021 Notes as of December 2014 is Caa1 by Moody's and B+ by Standard and Poor's, 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.

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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 thus render us unable 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 indenture governing our outstanding 2021 Notes restricts 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.

***We are a holding company and will depend on the business of our subsidiaries to satisfy our obligations under our outstanding 2021 Notes and other obligations.***

We are a holding company with no independent operations of our own. Our subsidiaries conduct substantially all of the operations necessary to fund payments on our outstanding 2021 Notes, other debt and any other obligations. Our ability to make payments on our outstanding 2021 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 our outstanding 2021 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 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 2021 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 outstanding 2021 Notes.***

We anticipate that payments under our outstanding 2021 Notes 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., which will repay loans owed to us. 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 our outstanding 2021 Notes.

*The indenture governing our outstanding 2021 Notes contains, and our future debt agreements will likely contain, covenants that significantly restrict our operations.*

The indenture governing our outstanding 2021 Notes contains, and our future debt agreements will likely contain, numerous covenants imposing financial and operating restrictions on our business. 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;

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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 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.

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

Since 2008, the global downturn 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 downturn 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 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 results of operations could be materially adversely affected in future periods as a result of economic downturns.

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

From the time we began operations as a separate entity in 2004 until we emerged from reorganization proceedings in 2009, we generated significant net losses and did not generate a profit for a full fiscal year. We may increase spending 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. If we cannot maintain profitability, the value of the enterprise may decline.

***We emerged from Chapter 11 reorganization proceedings in 2009; because our consolidated financial statements after October 2009 reflect fresh-start accounting adjustments, our current consolidated financial statements will not be comparable in many respects to our financial information from periods prior to that time.***

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 FASB Accounting Standards Codification Topic 852 ( ASC 852 ) effective from October 25, 2009, which had a material effect on our consolidated financial statements. Thus, our consolidated financial statements after October 2009 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.

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

We are subject to rules adopted by the SEC pursuant to Section 404 of the 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 are also required to periodically assess and report on the adequacy of our disclosure controls and

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procedures. As reported in Item 9A. Controls and Procedures of this Report, we have concluded that there are material weaknesses in our internal control over financial reporting and that our disclosure controls and procedures were ineffective as of December 31, 2013.

If we fail to remediate identified material weaknesses and maintain the effectiveness of our internal control over financial reporting, there is a risk that we will continue to have 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 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.

Our goal is to ensure that our disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed by us in the reports that we file or submit under the Exchange Act 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 Item 9A. Controls and Procedures.

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

During industry downturns and for other reasons, we may need to record impairment or restructuring charges. From November 9, 2009, the date we emerged from Chapter 11 reorganization proceedings, through December 31, 2013, we recognized aggregate restructuring and impairment charges of \$14.3 million, which consisted of \$10.9 million of impairment charges and \$3.4 million of restructuring charges. For the year ended December 31, 2013, we recognized \$1.8 million of restructuring charges from restructuring one of our fabrication facilities and \$0.6 million of impairment charges from certain existing technology. In addition, we recognized impairment charges related to impairment of goodwill, certain technology and tangible assets acquired in connection with our acquisition of Dawin Electronics, which we refer to as the Dawin acquisition, by \$3.4 million, \$1.9 million and \$0.5 million, respectively. 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.

***The price of our common stock may be volatile and you may lose all or a part of your investment.***

The trading price of our common stock might be subject to wide fluctuations. Factors, some of which are beyond our control, that could affect the trading price of our common stock may include:

actual or anticipated variations in our results of operations from quarter to quarter or year to year, including variations related to the Restatement;



announcements by us or our competitors of significant agreements, technological innovations or strategic alliances;

changes in recommendations or estimates by any securities analysts who follow our securities;

addition or loss of significant customers;

recruitment or departure of key personnel;

changes in economic performance or market valuations of competing companies in our industry;

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price and volume fluctuations in the overall stock market;

market conditions in our industry, end markets and the economy as a whole;

subsequent sales of stock and other financings; and

litigation, legislation, regulation or technological developments that adversely affect our business.

In the past, following periods of volatility in the market price of a public company's securities, securities class action litigation often has been instituted against the public company. Regardless of its outcome, this type of litigation could result in substantial costs to us and a likely diversion of our management's attention. You may not receive a positive return on your investment when you sell your shares, and you could lose some or the entire amount of your investment.

***Significant ownership of our common stock by certain stockholders could adversely affect our other stockholders.***

Based upon the number of shares of common stock outstanding as of December 31, 2014, our executive officers, directors and Avenue collectively beneficially owned approximately 12.7% of our common stock, excluding shares of common stock issuable upon exercise of outstanding options, and 15.3% of our common stock, including shares of common stock issuable upon exercise of outstanding options that are exercisable within sixty days of December 31, 2014. In addition, affiliates of Avenue currently have two employees serving as members of our six-member board of directors. Therefore, Avenue will continue to have significant influence over our affairs for the foreseeable future, including influence over the election of directors and significant corporate transactions, such as a merger or other sale of our company or our assets.

Our concentration of ownership may limit the ability of other stockholders to influence corporate matters and, as a result, we may take actions that our public stockholders do not view as beneficial. For example, our concentration of ownership could have the effect of delaying or preventing a change in control or otherwise discouraging a potential acquirer from attempting to obtain control of us, which in turn could cause the market price of our common stock to decline or prevent our stockholders from realizing a premium over the market price for their shares of our common stock.

Under our certificate of incorporation, our non-employee directors and non-employee holders of five percent or more of our outstanding common stock do not have a duty to refrain from engaging in a corporate opportunity in the same or similar activities or lines of business as those engaged in by us, our subsidiaries and other related parties. Also, we have renounced any interest or expectancy in such business opportunities even if the opportunity is one that we might reasonably have pursued or had the ability or desire to pursue if granted an opportunity to do so.

***Future sales of significant amounts of our common stock could negatively affect our stock price, even if our business is doing well.***

As of December 31, 2014, Avenue beneficially owned 4,088,978 shares, or approximately 12.0%, of our outstanding common stock. On November 9, 2014, all warrants to purchase our common stock previously held by Avenue expired. All of our currently outstanding shares that were issued pursuant to Section 1145 of the United States Bankruptcy Code, including Avenue's shares, are eligible for sale from time to time under Rule 144 or Section 4(a)(1) of the Securities Act subject only to the limitations on affiliate sales. Additionally, all remaining shares beneficially owned by Avenue are or will be registered for resale under a shelf registration statement and therefore be eligible for sale at any time or from time to time by Avenue. If any of our current stockholders, including Avenue, sells or is perceived by the market as intending to sell substantial amounts of our common stock, the market price of our common stock could drop significantly, even if our business is doing well.

***Provisions in our charter documents and Delaware Law may make it difficult for a third party to acquire us and could depress the price of our common stock.***

Provisions in our certificate of incorporation and bylaws may have the effect of delaying or preventing a change of control or changes in our management. Among other things, our certificate of incorporation and bylaws:

authorize our board of directors to issue, without stockholder approval, preferred stock with such terms as the board of directors may determine;

divide our board of directors into three classes so that only approximately one-third of the total number of directors is elected each year;

permit directors to be removed only for cause by a majority vote of the stockholders;

prohibit action by written consent of our stockholders;

prohibit any person other than our board of directors, the chairman of our board of directors, our Chief Executive Officer or holders of at least 25% of the voting power of all then outstanding shares of capital stock of the corporation entitled to vote generally in the election of directors to call a special meeting of our stockholders; and

specify advance notice requirements for stockholder proposals and director nominations.

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In addition, we are subject to the provisions of Section 203 of the Delaware General Corporation Law (the "DGCL"), regulating corporate takeovers and which has an anti-takeover effect with respect to transactions not approved in advance by our board of directors, including discouraging takeover attempts that might result in a premium over the market price for shares of our common stock. In general, those provisions prohibit a Delaware corporation from engaging in any business combination with any interested stockholder for a period of three years following the date that the stockholder became an interested stockholder, unless:

the transaction is approved by the board of directors before the date the interested stockholder attained that status;

upon consummation of the transaction which resulted in the stockholder becoming an interested stockholder, the interested stockholder owned at least 85% of the voting stock of the corporation outstanding at the time the transaction commenced; or

on or after such date, the business combination is approved by the board of directors and authorized at a meeting of stockholders, and not by written consent, by at least two-thirds of the outstanding voting stock that is not owned by the interested stockholder. In general, DGCL Section 203 defines a business combination to include the following:

any merger or consolidation involving the corporation and the interested stockholder;

any sale, transfer, pledge or other disposition of 10% or more of the assets of the corporation involving the interested stockholder;

subject to certain exceptions, any transaction that results in the issuance or transfer by the corporation of any stock of the corporation to the interested stockholder;

any transaction involving the corporation that has the effect of increasing the proportionate share of the stock of any class or series of the corporation beneficially owned by the interested stockholder; or

the receipt by the interested stockholder of the benefit of any loans, advances, guarantees, pledges or other financial benefits provided by or through the corporation.

In general, DGCL Section 203 defines an interested stockholder as any entity or person beneficially owning 15% or more of the outstanding voting stock of the corporation and any entity or person affiliated with or controlling or controlled by any such entity or person.

A Delaware corporation may opt out of this provision by express provision in its original certificate of incorporation or by amendment to its certificate of incorporation or bylaws approved by its stockholders. However, we have not opted out of, and do not currently intend to opt out of, this provision.

***We do not intend to pay dividends for the foreseeable future, and therefore, investors should rely on sales of their common stock as the only way to realize any future gains on their investments.***

We do not intend to pay any cash dividends in the foreseeable future. The payment of cash dividends on common stock is restricted under the terms of the indenture for our outstanding 2021 Notes. Any determination to pay dividends in the future will be at the discretion of our board of directors. Accordingly, investors must rely on sales of their common stock after price appreciation, which may never occur, as the only way to realize any future gains on their investments.

**Item 1B. Unresolved Staff Comments**

Not applicable.

**Item 2. Properties**

Our manufacturing operations consist of three fabrication facilities located in Korea at two sites in Cheongju and one in Gumi. Our facilities have a combined capacity of approximately 131,642 eight-inch equivalent wafers per month. We manufacture wafers utilizing geometries ranging from 0.11 to 2.0 microns. The Cheongju facilities have three main buildings totaling 164,058 square meters devoted to manufacturing and development. The Gumi facility has one main building with 41,022 square meters devoted to manufacturing, testing and packaging.

In addition to our fabrication facilities, we lease facilities in Seoul, Korea, and Cupertino, California. Each of these facilities includes administration, sales and marketing and research and development functions. We lease sales and marketing offices through our subsidiaries in several other countries.

The ownership of our wafer manufacturing assets is an important component of our business strategy. Maintaining manufacturing control enables us to develop proprietary, differentiated products and results in higher production yields, as well as shortened design and production cycles. We believe our facilities are suitable and adequate for the conduct of our business for the foreseeable future and that we have sufficient production capacity to service our business as currently contemplated without significant capital investment.

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A substantial majority of our assembly, test and packaging services for our Display Solutions business and all of such services for our Power Solutions business are outsourced with the balance handled in-house. Our independent providers of these services are located in Korea, China, Philippines, Malaysia and Thailand. The relative cost of outsourced services, as compared to in-house services, depends upon many factors specific to each product and circumstance. However, we generally incur higher costs for outsourced services, which can result in lower margins.

Although we own our manufacturing facilities, we are party to a land lease and easement agreement with SK Hynix pursuant to which we lease the land for our facilities in Cheongju, Korea from SK Hynix for an indefinite term. Because we share certain facilities with SK Hynix, several services that are essential to our business are provided to us by or through SK Hynix under our general service supply agreement with SK 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. The services agreement continues for an indefinite term subject to each party having a right to terminate in the event of an uncured breach by the other party.

**Item 3. Legal Proceedings**

*Securities Class Action Complaint*

On March 12, 2014, a purported class action was filed against the Company and certain of the Company's current and now-former officers on behalf of shareholders who purchased or acquired the Company's securities between February 1, 2012 and March 11, 2014. On September 30, 2014, an amended complaint was filed against the Company, certain current and now-former officers of the Company, certain members of the Company's Board of Directors, and a shareholder of the Company, alleging violations of Sections 10(b) and 20(a) of the Exchange Act and Rule 10b-5 promulgated thereunder. The action, *Thomas et al., v. MagnaChip Semiconductor Corp., et al.*, No. 3:14-CV-1160, is pending in the Northern District of California. The Court has granted the plaintiffs thirty days from the date this Report is filed with the SEC to file and serve a further amended complaint. At this time, the Company is unable to estimate any reasonably possible loss, or range of reasonably possible losses, with respect to the matters described above.

*SEC Enforcement Staff Investigation*

In addition, in March 2014, the Company voluntarily reported to the SEC that the Audit Committee had determined that the Company incorrectly recognized revenue on certain transactions and as a result would restate its financial statements, and that the Audit Committee had commenced the Independent Investigation. Over the course of 2014, the Company voluntarily produced documents to the SEC regarding the various accounting issues identified during the Independent Investigation, and whether the Company's hiring of an accountant from the Company's independent registered public accounting firm impacted that accounting firm's independence. On July 22, 2014, the Staff of the SEC's Division of Enforcement obtained a Formal Order of Investigation. The Company will continue to cooperate with the SEC in this investigation. At this time, the Company is unable to estimate any reasonably possible loss, or range of reasonably possible losses, with respect to the matters described above.

*Other Legal Proceedings*

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. Intellectual property litigation and infringement claims, in particular, could cause us to incur significant expenses or prevent us from selling our products. We are currently not involved in any ordinary-course legal proceedings that we believe would have a material adverse effect on our business, financial condition or results of operations.

**Item 4. Mine Safety Disclosures**

Not applicable.

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Our common stock is listed on the New York Stock Exchange under the symbol MX. On February 9, 2015, the last reported sales price of our common stock on the NYSE was \$14.87 per share. The table below sets forth the reported high and low sales prices for our common stock during the quarterly periods for the two most recent fiscal years described below.

**Price Range of Common Stock**

	<b>High</b>	<b>Low</b>
<b>Fiscal 2012</b>		
First Quarter	\$ 12.67	\$ 7.35
Second Quarter	\$ 12.24	\$ 8.61
Third Quarter	\$ 14.42	\$ 8.38
Fourth Quarter	\$ 16.10	\$ 10.85
<b>Fiscal 2013</b>		
First Quarter	\$ 18.25	\$ 14.08
Second Quarter	\$ 19.33	\$ 14.42
Third Quarter	\$ 23.33	\$ 17.11
Fourth Quarter	\$ 23.89	\$ 17.52

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The graph and table below compare the cumulative total stockholder return of our common shares with the cumulative total return of the S&P 500 Index and the Philadelphia Semiconductor Index (PHLX) from March 11, 2011 (the first trading date following the MagnaChip IPO) through December 31, 2013. The graph assumes that \$100 was invested on March 11, 2011 in our common shares and in each index and that any dividends were reinvested. No cash dividends have been declared on our common shares since the MagnaChip IPO.

**Comparison of Cumulative Total Return\***

Among MagnaChip Semiconductor Corporation, the S&P 500 Index and the PHLX (By Quarter)

\* The stock performance included in this graph is not necessarily indicative of future stock performance.

**Total Return to Stockholders (Including Reinvestment of Dividends)****Quarterly Return Percentage**

Company / Index	3/31/11	6/30/11	9/30/11	12/31/11	3/31/12	6/30/12	9/30/12	12/31/12	3/31/13	6/30/13	9/30/13	12/31/13
<b>MagnaChip Semiconductor Corporation</b>	-1.86	-16.22	-41.67	11.31	60.43	-20.58	23.82	34.92	8.73	5.55	17.84	-9.43
<b>S&amp;P 500 Index</b>	1.80	0.10	-13.87	11.82	12.59	-2.75	6.35	-0.38	10.61	2.91	5.24	10.51
<b>Philadelphia Semiconductor Index</b>	2.21	-6.18	-17.43	7.56	20.36	-12.12	-0.83	0.47	13.70	7.28	4.78	9.01



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Company / Index	Base												
	Period	3/11/11	3/31/11	6/30/11	9/30/11	12/31/11	3/31/12	6/30/12	9/30/12	12/31/12	3/31/13	6/30/13	9/30/13
<b>MagnaChip Semiconductor Corporation</b>	<b>100</b>	98.14	82.23	47.97	53.39	85.65	68.02	84.23	113.63	123.55	130.41	153.68	139.19
<b>S&amp;P 500 Index</b>	<b>100</b>	101.80	101.90	87.77	98.14	110.49	107.45	114.28	113.84	125.92	129.58	136.38	150.72
<b>Philadelphia Semiconductor Index</b>	<b>100</b>	102.21	95.90	79.18	85.17	102.51	90.08	89.33	89.75	102.04	109.47	114.70	125.03

The approximate number of record holders of our outstanding common stock as of January 31, 2015 was 82. This number does not include beneficial owners for whom shares are held by nominees in street name.

**Dividends**

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 2021 Notes.

**Issuer Purchases of Equity Securities**

On October 7, 2011, our Board adopted a stock repurchase program whereby we may, subject to prevailing market conditions and other factors, repurchase up to \$35.0 million of our outstanding common stock. Our Board extended and increased the program by an additional \$25.0 million in August 2012, for a maximum aggregate repurchase amount under the original program of up to \$60.0 million. On July 30, 2013, we announced that the Board approved a new stock repurchase program under which we are authorized to repurchase up to \$100.0 million of our common stock. The new stock repurchase program was effective August 5, 2013 through December 15, 2014, and replaced the original stock repurchase program. The stock repurchase program did not require that we purchase a minimum amount of shares of our common stock and may be commenced, suspended, resumed or terminated at any time without notice. The timing and extent of any repurchases were dependent upon prevailing market conditions, the trading price of the Company's common stock and other factors, and subject to contractual restrictions and restrictions under applicable law and regulations. As of December 31, 2013, we had repurchased 6,578,765 shares of our common stock in the open market under these programs at an aggregate cost of \$90.9 million. In March 2014, the Board suspended the stock repurchase program indefinitely pending the completion of the Independent Investigation, and the stock repurchase program expired by its terms on December 15, 2014. Subsequent to December 31, 2013, we did not repurchase any shares under the stock repurchase program.

Period	(a) Total Number of Shares Purchased	(b) Average Price Paid Per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs
October 1, 2013 through October 31, 2013	63,642	\$ 18.92	63,642	\$ 73,796,023.37
November 1, 2013 through November 30, 2013	904,809	\$ 19.50	904,809	\$ 56,148,535.82
	56,896	\$ 20.19	56,896	\$ 55,000,057.05

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December 1, 2013 through December 31,  
2013

Total:	1,025,347	1,025,347
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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 Item 7. Management Discussion and Analysis of Financial Condition and Results of Operations and our consolidated financial statements contained in Item 8. Financial Statements and Supplementary Data, including the notes to those consolidated financial statements, appearing elsewhere in this Report. As discussed in Note 2. Restatement of Consolidated Financial Statements in such consolidated financial statements, our selected financial data set forth below as of and for the years ended December 31, 2012 and 2011 have been restated, and we have not amended any other previously filed Annual Reports on Form 10-K for the periods affected by this restatement. The financial information that has been previously filed or otherwise reported for these periods is superseded by the information in this Report, and the financial statements and related financial information contained in previously filed reports, including the related opinions of our independent registered public accounting firm, press releases, communications and statements by management related thereto, should no longer be relied upon.

We have derived the selected consolidated financial data as of December 31, 2013 and for the year ended December 31, 2013 from the historical audited consolidated financial statements of the Company included in this Report. We have derived the selected consolidated financial data as of December 31, 2012 and 2011 and for the years ended December 31, 2012 and 2011 from the restated audited consolidated financial statements of MagnaChip Semiconductor Corporation included in this Report. We 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 (successor) and the ten-month period ended October 25, 2009 (predecessor) from the historical unaudited consolidated financial statements not included in this report, which were prepared on the same basis as our audited consolidated financial statements, and reflect adjustments to our previously filed consolidated financial statements. See Note 2. Restatement of Consolidated Financial Statements to our consolidated financial statements under Item 8. Financial Statements and Supplementary Data in this Report for information regarding our restatement of prior period financial data. The historical unaudited consolidated financial data for the year ended December 31, 2010 and the two-month period ended December 31, 2009 also gives retroactive effect to the corporate conversion. The historical financial data of MagnaChip Semiconductor Corporation for any period are not necessarily indicative of the results to be expected in any future period.

	Successor(1)				Predecessor	
	Year Ended	Year Ended	Year Ended	Year Ended	Two Month	Ten Month
	December	December	December	December	Period	Period
	31,	31,	31,	31,	December 31,	October
	2013	2012	2011	2010(6)	2009(6)	2009(6)
		As	As	As	As	As
		Restated	Restated	Restated	Restated	Restated
(In millions, except per common unit/share data)						
<b>Statements of Operations Data:</b>						
Net sales	\$ 734.2	\$ 807.3	\$ 743.1	\$ 771.2	\$ 111.1	\$ 449.0
Cost of sales	579.1	564.1	543.6	527.1	90.5	311.4
Gross profit	155.1	243.2	199.5	244.1	20.6	137.6
Selling, general and administrative expenses	85.8	82.7	70.2	66.6	14.5	56.3
Research and development expenses	87.9	76.3	76.6	83.5	14.8	56.2
Restructuring and impairment charges	8.2		3.6	2.0		0.4
Special expense for IPO incentive			12.1			
Operating income (loss) from continuing operations	(26.8)	84.3	37.0	92.0	(8.8)	24.7
Interest expense, net	(20.4)	(22.6)	(25.0)	(22.9)	(1.3)	(31.2)
Foreign currency gain (loss), net	16.8	57.3	(11.3)	14.7	9.3	43.4
Reorganization items, net						804.6
Loss on early extinguishment of senior notes	(32.8)		(5.5)			

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Others	2.9	3.9	1.6	(0.7)		
	(33.5)	38.6	(40.2)	(8.9)	8.1	816.8

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	Successor(1)				Predecessor	
	Year Ended December 31, 2013	Year Ended December 31, 2012 As Restated	Year Ended December 31, 2011 As Restated	Year Ended December 31, 2010(6) As Restated	Two Month Period Ended December 31, 2009(6) As Restated	Ten Month Period Ended October 25, 2009(6) As Restated
Income (loss) from continuing operations before income taxes	(60.2)	122.9	(3.2)	83.1	(0.7)	841.5
Income tax expenses	4.0	12.8	8.1	8.4	1.9	7.3
Income (loss) from continuing operations	(64.2)	110.0	(11.3)	74.7	(2.6)	834.2
Income from discontinued operations, net of taxes					0.5	6.6
Net income (loss)	\$ (64.2)	\$ 110.0	\$ (11.3)	\$ 74.7	\$ (2.1)	\$ 840.8
Dividends accrued on preferred unit						6.3
Income (loss) from continuing operations attributable to common unit/share	\$ (64.2)	\$ 110.0	\$ (11.3)	\$ 74.7	\$ (2.6)	\$ 827.9
Net income (loss) attributable to common unit/share	\$ (64.2)	\$ 110.0	\$ (11.3)	\$ 74.7	\$ (2.0)	\$ 834.5
Per unit/share data:						
Earnings (loss) from continuing operations per common unit/share						
Basic	\$ (1.82)	\$ 3.01	\$ (0.29)	\$ 1.97	\$ (0.07)	\$ 15.64
Diluted	\$ (1.82)	\$ 2.93	\$ (0.29)	\$ 1.91	\$ (0.07)	\$ 15.64
Earnings from discontinued operations per common unit/share						
Basic and diluted	\$	\$	\$	\$	\$ 0.01	\$ 0.12
Earnings (loss) per common unit/share						
Basic	\$ (1.82)	\$ 3.01	\$ (0.29)	\$ 1.97	\$ (0.05)	\$ 15.77
Diluted	\$ (1.82)	\$ 2.93	\$ (0.29)	\$ 1.91	\$ (0.05)	\$ 15.77
Weighted average number of common units/shares						
Basic	35.232	36.568	38.776	37.836	37.608	52.923
Diluted	35.232	37.533	38.776	39.144	37.608	52.923
<b>Balance Sheet Data (at period end):</b>						
Cash and cash equivalents	\$ 153.6	\$ 182.2	\$ 162.1	\$ 172.2	\$ 64.9	
Total assets	625.2	680.7	579.3	625.7	453.3	
Total indebtedness(2)	223.9	201.7	204.2	246.9	61.8	
Long-term obligations(3)	223.9	201.7	201.4	250.0	61.5	
Stockholders /Unitholders equity	81.5	191.5	134.2	161.2	214.3	
<b>Supplemental Data (unaudited):</b>						
Adjusted EBITDA(4)	\$ 20.0	\$ 124.3	\$ 108.3			
Adjusted Net Income (Loss)(5)	\$ (31.5)	\$ 64.5	\$ 32.2			

(1)

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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.

- (2) Total indebtedness is calculated as long and short-term borrowings, including the current portion of capital lease obligation.
- (3) Long-term obligations include long-term borrowings and capital leases.
- (4) We define Adjusted EBITDA for the periods indicated as net income (loss), adjusted to exclude (i) depreciation and amortization, (ii) interest expense, net, (iii) income tax expenses (benefits), (iv) restructuring and impairment charges, (v) equity-based compensation expense, (vi) foreign currency loss (gain), net, (vii) derivative valuation loss (gain), net,

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- (viii) secondary offering and others, (ix) one-time incentive payments in connection with the MagnaChip IPO and (x) loss on early extinguishment of senior notes. This is a non-US GAAP financial measure and is discussed under Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations Explanation and Reconciliation of Non-US GAAP measures Adjusted EBITDA and Adjusted Net Income.
- (5) We define Adjusted Net Income for the periods indicated as net income (loss), adjusted to exclude (i) restructuring and impairment charges, (ii) equity-based compensation expense, (iii) amortization of intangibles, (iv) foreign currency loss (gain), net, (v) derivative valuation loss (gain), net, (vi) secondary offering and others, (vii) one-time incentive payments in connection with the MagnaChip IPO and (viii) loss on early extinguishment of senior notes. This is a non-US GAAP financial measure and is discussed under Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations Explanation and Reconciliation of Non-US GAAP measures Adjusted EBITDA and Adjusted Net Income.
- (6) The cumulative impact of these errors identified by us totaled \$0.8 million, net decrease of \$0.1 million in retaining earnings for the two-month period ended December 31, 2009, a decrease of \$1.3 million for the ten-month period ended October 25, 2009, offset by an increase of \$0.6 million in retaining earnings for the year ended December 31, 2010. This was recorded as an adjustment to beginning retained earnings in 2011 as described in Note 2. Restatement of Consolidated Financial Statements to our consolidated financial statements under Item 8. Financial Statements and Supplementary Data. In addition, we identified an immaterial error that did not impact the Company's earnings but overstated prepaid expenses and additional paid in capital. We corrected these errors in the selected financial data.

**Table of Contents****Index to Financial Statements****Summary Financial Impacts of Restatements**

The following table presents the impact of the adjustments on our previously reported consolidated statement of operations for the year ended December 31, 2012:

	Year Ended December 31, 2012										
	Restatement Adjustments										
	Understated										
	As Previously Reported	Revenue Recognition	Inventory Reserves	Employee Benefits	Settlement Obligations	Tax Matters	Account Classification	Cost Center Allocation	Other Adjustments	Total Adjustments	As Restated
Net sales	\$ 819.6	\$ (11.4)	\$	\$	\$ 1.4	\$	\$ (2.2)	\$	\$	\$ (12.3)	\$ 807.3
Cost of sales	556.1	(1.3)	7.8	0.8	0.5		2.7	(3.2)	0.8	8.0	564.1
<b>Gross profit</b>	<b>263.5</b>	<b>(10.1)</b>	<b>(7.8)</b>	<b>(0.8)</b>	<b>0.9</b>		<b>(4.9)</b>	<b>3.2</b>	<b>(0.8)</b>	<b>(20.3)</b>	<b>243.2</b>
Selling, general and administrative expenses	79.0	(0.5)		0.1		0.8		3.3	0.1	3.7	82.7
Research and development expenses	78.7			0.1			(2.7)	(0.1)	0.1	(2.5)	76.3
Operating income	105.8	(9.6)	(7.8)	(1.1)	0.9	(0.8)	(2.2)		(0.9)	(21.5)	84.3
Other income (expenses)											
Interest expense, net	(22.6)										(22.6)
Foreign currency gain, net	56.0	1.3								1.3	57.3
Others	2.1	(0.4)					2.2			1.8	3.9
	35.5	0.8					2.2			3.1	38.6
Income before income taxes	141.3	(8.7)	(7.8)	(1.1)	0.9	(0.8)			(0.9)	(18.4)	122.9
Income tax expenses (benefits)	(52.0)					64.9				64.9	12.8
Net income	\$ 193.3	\$ (8.7)	\$ (7.8)	\$ (1.1)	\$ 0.9	\$ (65.6)	\$	\$	\$ (0.9)	\$ (83.3)	\$ 110.0
Earnings per common share											
Basic	\$ 5.29										\$ 3.01
Diluted	\$ 5.16										\$ 2.93
Weighted average number of shares											
Basic	36.568										36.568
Diluted	37.497										37.533



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See Note 2. Restatement of Consolidated Financial Statements to our consolidated financial statements under Item 8. Financial Statements and Supplementary Data for a detailed discussion of the effect of the restatement.

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The following table presents the impact of the adjustments on our previously reported consolidated statement of operations for the year ended December 31, 2011:

	Year Ended December 31, 2011									As Restated
	Restatement Adjustments									
	As Previously Reported	Revenue Recognition	Inventory Reserves	Employee Benefits	Settlement Obligations	Tax Matters	Account Classification	Other Adjustments	Total Adjustments	
Net sales	\$ 772.8	\$ (27.5)	\$	\$	\$	\$	\$ (2.2)	\$	\$ (29.7)	\$ 743.1
Cost of sales	538.5	(10.1)	10.1	1.7	2.1		0.7	0.5	5.1	543.6
Gross profit	234.3	(17.4)	(10.1)	(1.7)	(2.1)		(2.9)	(0.5)	(34.8)	199.5
Selling, general and administrative expenses	68.4	(0.4)		0.3		1.2	0.5	0.2	1.9	70.2
Research and development expenses	76.8			0.4			(0.7)	0.1	(0.2)	76.6
Restructuring and impairment charges	4.1						(0.5)		(0.5)	3.6
Special expense for IPO incentive	12.1									12.1
Operating income	72.9	(17.1)	(10.1)	(2.5)	(2.1)	(1.2)	(2.2)	(0.9)	(36.0)	37.0
Other expenses										
Interest expense, net	(25.0)									(25.0)
Foreign currency loss, net	(11.6)	0.1						0.2	0.3	(11.3)
Loss on early extinguishment of senior notes	(5.5)									(5.5)
Others	(1.0)	0.5					2.2		2.7	1.6
	(43.1)	0.6					2.2	0.2	3.0	(40.2)
Income (loss) before income taxes	29.8	(16.4)	(10.1)	(2.5)	(2.1)	(1.2)		(0.7)	(33.0)	(3.2)
Income tax expenses	8.0					0.1			0.1	8.1
Net income (loss)	\$ 21.8	\$ (16.4)	\$ (10.1)	\$ (2.5)	\$ (2.1)	\$ (1.3)	\$	\$ (0.7)	\$ (33.1)	\$ (11.3)
Earnings (loss) per common share										
Basic	\$ 0.56									\$ (0.29)
Diluted	\$ 0.55									\$ (0.29)
Weighted average number of shares										
Basic	38.776									38.776
Diluted	39.775									38.776

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See Note 2. Restatement of Consolidated Financial Statements to our consolidated financial statements under Item 8. Financial Statements and Supplementary Data for a detailed discussion of the effect of the restatement.

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The restatement had the following impact on Adjusted EBITDA for the year ended December 31, 2012.

	Successor Year Ended December 31, 2012		
	As Previously Reported	Restatement Adjustments (In millions)	As Restated
Net income	\$ 193.3	\$ (83.3)	\$ 110.0
Adjustments:			
Depreciation and amortization	32.4	(0.3)	32.1
Interest expense, net	22.6		22.6
Income tax expenses (benefits)	(52.0)	64.9	12.8
Equity-based compensation expense	2.0	0.4	2.4
Foreign currency gain, net	(56.0)	(1.3)	(57.3)
Derivative valuation loss (gain), net	(2.1)	0.4	(1.7)
Secondary offering and others	3.3		3.3
Adjusted EBITDA	\$ 143.5	\$ (19.2)	\$ 124.3

The restatement had the following impact on Adjusted EBITDA for the year ended December 31, 2011.

	Successor Year Ended December 31, 2011		
	As Previously Reported	Restatement Adjustments (In millions)	As Restated
Net income (loss)	\$ 21.8	\$ (33.1)	\$ (11.3)
Adjustments:			
Depreciation and amortization	51.2		51.2
Interest expense, net	25.0		25.0
Income tax expenses	8.0	0.1	8.1
Restructuring and impairment charges	4.1	(0.5)	3.6
Equity-based compensation expense	2.2	0.1	2.2
Foreign currency loss (gain), net	11.6	(0.3)	11.3
Derivative valuation loss (gain), net	1.0	(0.5)	0.6
Special expense for IPO incentive	12.1		12.1
Loss on early extinguishment of senior notes	5.5		5.5
Adjusted EBITDA	\$ 142.5	\$ (34.2)	\$ 108.3

See Note 2. Restatement of Consolidated Financial Statements to our consolidated financial statements under Item 8. Financial Statements and Supplementary Data for a detailed discussion of the effect of the restatement.

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The restatement had the following impact on Adjusted Net Income for the year ended December 31, 2012.

	Successor Year Ended December 31, 2012		
	As Previously Reported	Restatement Adjustments (In millions)	As Restated
Net income	\$ 193.3	\$ (83.3)	\$ 110.0
Adjustments:			
Equity-based compensation expense	2.0	0.4	2.4
Amortization of intangibles	7.7		7.7
Foreign currency gain, net	(56.0)	(1.3)	(57.3)
Derivative valuation loss (gain), net	(2.1)	0.4	(1.7)
Secondary offering and others	3.3		3.3
GAAP and cash tax expense difference	(64.7)	64.7	
<b>Adjusted Net Income</b>	<b>\$ 83.5</b>	<b>\$ (19.0)</b>	<b>\$ 64.5</b>

The restatement had the following impact on Adjusted Net Income for the year ended December 31, 2011.

	Successor Year Ended December 31, 2011		
	As Previously Reported	Restatement Adjustments (In millions)	As Restated
Net income (loss)	\$ 21.8	\$ (33.1)	\$ (11.3)
Adjustments:			
Restructuring and impairment charges	4.1	(0.5)	3.6
Equity-based compensation expense	2.2	0.1	2.2
Amortization of intangibles	8.1		8.1
Foreign currency loss (gain), net	11.6	(0.3)	11.3
Derivative valuation loss (gain), net	1.0	(0.5)	0.6
Special expense for IPO incentive	12.1		12.1
Loss on early extinguishment of senior notes	5.5		5.5
<b>Adjusted Net Income</b>	<b>\$ 66.4</b>	<b>\$ (34.3)</b>	<b>\$ 32.2</b>

See Note 2. Restatement of Consolidated Financial Statements to our consolidated financial statements under Item 8. Financial Statements and Supplementary Data for a detailed discussion of the effect of the restatement.

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**Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations**

*The following discussion and analysis should be read in conjunction with the audited consolidated financial statements and unaudited consolidated interim financial statements, together in each case with the related notes, included elsewhere in this Report. 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 Report. See Part I Special Note Regarding Forward Looking Statements elsewhere in this Report.*

**Restatement of Consolidated Financial Statements**

As discussed below and in Item 8. Financial Statements and Supplementary Data Notes to Consolidated Financial Statements Note 2. Restatement of Consolidated Financial Statements, we have restated our previously issued audited consolidated financial statements for the fiscal years ended December 31, 2012 and 2011. The financial information that has been previously filed or otherwise reported for these periods is superseded by the information in this Report, and the financial statements and related financial information contained in previously filed reports, including the related opinions of our independent registered public accounting firm, press releases, communications and statements by management related thereto, should no longer be relied upon. Accordingly, the Management's Discussion and Analysis of Financial Condition and Results of Operations set forth below reflects the effects of the restatement.

As part of the audit of the financial statements for inclusion in our 2013 Form 10-K, it was determined that revenue on certain transactions was incorrectly recognized in our consolidated financial statements for the years ended December 31, 2012 and 2011. We filed a Current Report on Form 8-K with the SEC on March 11, 2014 disclosing our Audit Committee's conclusion that certain of our previously issued annual audited and interim unaudited financial statements contained in our historical Annual Reports on Form 10-K and Quarterly Reports on Form 10-Q should no longer be relied upon and should be restated. The impact of the restatement on our consolidated financial statements is detailed in Item 8. Financial Statements and Supplementary Data Notes to Consolidated Financial Statements Note 2. Restatement of Consolidated Financial Statements in this Report. As a result of the errors identified during the restatement, management identified material weaknesses in our internal control over financial reporting and concluded that our disclosure controls and procedures were not effective as of December 31, 2013. These weaknesses, an evaluation of the effectiveness of our disclosure controls and procedures and our remediation plans related thereto are more fully described in Item 9A. Controls and Procedures in Part II of this Report.

**Overview**

We are a Korea-based designer and manufacturer of analog and mixed-signal semiconductor products for high-volume consumer, computer and communication 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 3,167 registered novel patents and 134 pending novel patent applications and extensive engineering and manufacturing process expertise. Our business is comprised of three key business lines: 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, computer, communication and industrial applications. Our Semiconductor Manufacturing Services provide 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 allow us to address multiple high-growth end markets and to rapidly develop and introduce new products and services in response to market demands. Our design center and substantial manufacturing operations in Korea 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 serve 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 capacity 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.

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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 market share losses by our customers. To mitigate the impact of market volatility on our business, we seek to address markets and geographies with higher growth rates than the overall consumer electronics industry. We also expect that new competitors will emerge in these markets that may place increased pressure on the

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pricing for our products and services. While we believe we are well-positioned competitively to compete in these markets and against these new competitors as a result of our long operating history, existing manufacturing capacity and our Korea-based operations, if we are not effective in competing in these markets our operating results may be adversely affected.

Within our Display Solutions and Power Solutions lines, net sales are driven by design wins in which we are 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 that 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 do 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 business line of the market result in more moderate industry capacity expansion as compared to leading edge processes. As a result, this market, and we, specifically, are less likely to experience significant industry overcapacity, which can cause product prices to decline significantly. 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 processes, high-flexibility and excellent service.

### ***Other Significant Events***

In March 2011, we completed the MagnaChip IPO of 9,500,000 shares of common stock, which we listed on the NYSE. All shares were sold in the form of depositary shares and each depositary share represented an ownership interest in one share of common stock. Of the 9,500,000 shares, 950,000 shares were newly issued by us and 8,550,000 shares were sold by selling stockholders. All outstanding depositary shares were automatically cancelled on April 24, 2011 and the underlying shares of common stock were issued to the holders of such cancelled depositary shares. We received \$12.4 million of proceeds from the issuance of the new shares of common stock after deducting underwriters' discounts and commissions, and we did not receive any proceeds from the sale of shares of common stock offered by the selling stockholders. We incurred \$10.8 million of MagnaChip IPO expenses that were recorded as decrease of additional paid-in capital in our consolidated balance sheets.



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Prior to the MagnaChip IPO, MagnaChip Semiconductor LLC, a Delaware limited liability company, was converted to MagnaChip Semiconductor Corporation, a Delaware corporation. In connection with the corporate conversion, outstanding common units of MagnaChip Semiconductor

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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 one share of common stock for eight common units.

On May 16, 2011, two of our wholly owned subsidiaries, MagnaChip Semiconductor S.A. and MagnaChip Semiconductor Finance Company, repurchased \$35.0 million out of \$250.0 million aggregate principal amount of our senior notes then outstanding at a price of 109.0% from Avenue. In connection with the May 2011 repurchase of the senior notes, the Company recognized \$4.1 million of loss on early extinguishment of senior notes, which consisted of \$3.2 million from repurchase premium, \$0.4 million from write-off of discounts, \$0.2 million from write-off of debt issuance costs and \$0.3 million from incurrence of direct legal and advisory service fees.

On September 19, 2011, two of our wholly owned subsidiaries, MagnaChip Semiconductor S.A. and MagnaChip Semiconductor Finance Company, repurchased \$11.3 million out of \$215 million aggregate principal amount of our senior notes then outstanding at a price of 107.5%. In connection with the September 2011 repurchase of the senior notes, we recognized \$1.4 million of loss on early extinguishment of senior notes, which consisted of \$0.9 million from repurchase premium, \$0.1 million from write-off of discounts, \$0.4 million from write-off of debt issuance costs.

On October 7, 2011, our Board adopted a stock repurchase program whereby we may, subject to prevailing market conditions and other factors, repurchase up to \$35.0 million of our outstanding common stock. Our Board extended and increased the program by an additional \$25.0 million in August 2012, for a maximum aggregate repurchase amount under the original program of up to \$60.0 million. On July 30, 2013, we announced that the Board approved a new stock repurchase program under which we are authorized to repurchase up to \$100.0 million of our common stock. The new stock repurchase program was effective August 5, 2013 through December 15, 2014, and replaced the original stock repurchase program. The stock repurchase program did not require that we purchase a minimum amount of shares of our common stock and may be commenced, suspended, resumed or terminated at any time without notice. The timing and extent of any repurchases were dependent upon prevailing market conditions, the trading price of the Company's common stock and other factors, and subject to contractual restrictions and restrictions under applicable law and regulations. As of December 31, 2013, we had repurchased 6,578,765 shares of our common stock in the open market under these programs at an aggregate cost of \$90.9 million. In March 2014, the Board suspended the stock repurchase program indefinitely pending the completion of the Independent Investigation, and the stock repurchase program expired by its terms on December 15, 2014. Subsequent to December 31, 2013, we did not repurchase any shares under the stock repurchase program.

On May 1, 2012, we closed an underwritten registered public offering of 7,000,000 shares of our common stock owned by certain of our stockholders at a price per share of \$11.40. We did not receive any proceeds from the sale of our common stock by the selling stockholders but paid certain expenses in connection with such secondary offering.

On February 8, 2013, we closed an underwritten registered public offering of 5,750,000 shares of our common stock owned by certain of our stockholders at a price per share of \$14.50. We did not receive any proceeds from the sale of our common stock by the selling stockholders but paid certain expenses in connection with such secondary offering.

On July 18, 2013, we issued the 2021 Notes, at a price of 99.5%. Interest on the 2021 Notes accrues at a rate of 6.625% per annum, payable semi-annually on January 15 and July 15 of each year, beginning on January 15, 2014. We used net proceeds of the 2021 Notes, together with cash on hand, to repay all of our then outstanding 10.5% senior notes due April 15, 2018 (the 2018 Notes), including applicable premium and accrued interest, and to pay related fees and expenses of the 2021 Notes offering.

On September 13, 2013, we closed an underwritten registered public offering of 1,700,000 shares of our common stock owned by certain of our stockholders at a price per share of \$21.20. We did not receive any proceeds from the sale of our common stock by the selling stockholders but paid certain expenses in connection with such secondary offering.

***Business Lines***

We operate three separate business lines within one segment: Display Solutions, Power Solutions and Semiconductor Manufacturing Services.

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**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, light emitting diode, or LED, 3D and OLED televisions, notebooks, mobile communications and entertainment devices. Our Display Solutions support the industry's most advanced display technologies, such as AMOLEDs, and LTPS, as well as high-volume display technologies such as TFTs. Our Display Solutions business represented 27.6%, 35.4% and 43.6% of our net sales for the fiscal years ended December 31, 2013, 2012 and 2011, respectively.

**Power Solutions:** Our Power Solutions line produces power management semiconductor products including discrete and integrated circuit solutions for power management in high-volume consumer applications. These products include MOSFETs, insulated-gate bipolar transistors (IGBTs) power modules, AC-DC converters, DC-DC converters, LED drivers, switching regulators and linear regulators for a range of devices, including televisions, smartphones, mobile phones, desktop PCs, notebooks, tablet PCs, other consumer electronics, and industrial applications such as power suppliers, LED lighting, motor control and home appliances. Our Power Solutions business represented 18.4%, 15.5% and 11.8% of our net sales for the fiscal years ended December 31, 2013, 2012 and 2011, respectively.

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**Semiconductor Manufacturing Services:** Our Semiconductor Manufacturing Services line 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 377 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 53.9%, 49.0% and 44.5% of our net sales for the fiscal years ended December 31, 2013, 2012 and 2011, respectively.

### **Explanation and Reconciliation of Non-US GAAP Measures**

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

We use the terms Adjusted EBITDA and Adjusted Net Income throughout this Report. Adjusted EBITDA, as we define it, is a non-US GAAP measure. We define Adjusted EBITDA for the periods indicated as net income (loss), adjusted to exclude (i) depreciation and amortization, (ii) interest expense, net, (iii) income tax expenses (benefits), (iv) restructuring and impairment charges, (v) equity-based compensation expense, (vi) foreign currency loss (gain), net, (vii) derivative valuation loss (gain), net, (viii) secondary offering and others, (ix) one-time incentive payments in connection with the MagnaChip IPO and (x) loss on early extinguishment of senior notes.

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;

our investor and analyst presentations 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 concerning our consolidated financial performance; and

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

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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 US 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 US GAAP. A reconciliation of net income (loss) to Adjusted EBITDA is as follows:

	Year Ended December 31, 2013	Successor Year Ended December 31, 2012 As Restated (In millions)	Year Ended December 31, 2011 As Restated
Net Income (Loss)	\$ (64.2)	\$ 110.0	\$ (11.3)
Adjustments:			
Depreciation and amortization	32.7	32.1	51.2
Interest expense, net	20.3	22.6	25.0
Income tax expenses	4.0	12.8	8.1
Restructuring and impairment charges(a)	8.2		3.6
Equity-based compensation expense(b)	2.2	2.4	2.2
Foreign currency loss (gain), net(c)	(16.8)	(57.3)	11.3
Derivative valuation loss (gain), net(d)	(0.6)	(1.7)	0.6
Secondary offering and others(e)	1.4	3.3	
Special expense for IPO incentive(f)			12.1
Loss on early extinguishment of senior notes(g)	32.8		5.5
Adjusted EBITDA	\$ 20.0	\$ 124.3	\$ 108.3

- (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 2013, restructuring charges of \$1.8 million related to the restructuring of our six inch fabrication facilities, and the impact of impairment charges of \$3.4 million related to the impairment of goodwill, \$1.9 million related to the impairment of certain technology and \$0.5 million of machinery and equipment purchased in connection with the Dawin acquisition, and the impact of impairment charges of \$0.6 million related to the impairment of certain existing technology, (ii) for 2011, restructuring charges of \$1.1 million related to the closure of our research and development center in Japan and sales subsidiary in the United Kingdom and impairment charges related to \$2.0 million from twelve abandoned in-process research and development projects and one dropped existing technology, \$0.4 million from one abandoned system project and \$0.1 million from impairment of tangible and intangible assets.
- (b) 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.
- (c) 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.
- (d) 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 U.S. dollars, 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.

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- (e) This adjustment eliminates expenses incurred for our secondary offerings in September 2013, February 2013 and May 2012 and for tax and dues related to value added tax return revisions in 2012.
- (f) This adjustment eliminates the one-time impact of incentive payments to all employees excluding management in connection with the MagnaChip IPO.
- (g) This adjustment eliminates the impact of loss on (i) for 2011, repurchase of \$46.3 million aggregate principal amount of the 2018 Notes and (ii) for 2013, repayment of \$203.7 million aggregate principal amount of the 2018 Notes.

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;

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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;

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 US GAAP results and using Adjusted EBITDA only supplementally.

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 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

our investor and analyst presentations will include Adjusted Net Income.

Adjusted Net Income is not a measure defined in accordance with US 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 US 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 for the periods indicated as net income (loss), adjusted to exclude (i) restructuring and impairment charges, (ii) equity-based compensation expense, (iii) amortization of intangibles, (iv) foreign currency loss (gain), net, (v) derivative valuation loss (gain), net, (vi) secondary offering and others, (vii) one-time incentive payments in connection with the MagnaChip IPO and (viii) loss on early extinguishment of senior notes.

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



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	Year Ended December 31, 2013	Year Ended December 31, 2012 As Restated (In millions)	Year Ended December 31, 2011 As Restated
Net Income (Loss)	\$ (64.2)	\$ 110.0	\$ (11.3)
Adjustments:			
Restructuring and impairment charges(a)	8.2		3.6
Equity-based compensation expense(b)	2.2	2.4	2.2
Amortization of intangibles(c)	5.5	7.7	8.1
Foreign currency loss (gain), net(d)	(16.8)	(57.3)	11.3
Derivative valuation loss (gain), net(e)	(0.6)	(1.7)	0.6
Secondary offering and others(f)	1.4	3.3	
Special expense for IPO incentive(g)			12.1
Loss on early extinguishment of senior notes(h)	32.8		5.5
Adjusted Net Income (Loss)	\$ (31.5)	\$ 64.5	\$ 32.2

- (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 2013, restructuring charges of \$1.8 million related to the restructuring of our six inch fabrication facilities, and the impact of impairment charges of \$3.4 million related to the impairment of goodwill, \$1.9 million related to the impairment of certain technology and \$0.5 million of machinery and equipment purchased in connection with the Dawin acquisition, and the impact of impairment charges of \$0.6 million related to the impairment of certain existing technology, (ii) for 2011,

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- restructuring charges of \$1.1 million related to the closure of our research and development center in Japan and sales subsidiary in the United Kingdom and impairment charges related to \$2.0 million from twelve abandoned in-process research and development projects and one dropped existing technology, \$0.4 million from one abandoned system project and \$0.1 million from impairment of tangible and intangible assets.
- (b) 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.
  - (c) 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.
  - (d) 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.
  - (e) 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 U.S. dollars, 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.
  - (f) This adjustment eliminates expenses incurred for our secondary offerings in September 2013, February 2013 and May 2012 and for tax and dues related to value added tax return revisions in 2012.
  - (g) This adjustment eliminates the one-time impact of incentive payments to all employees excluding management in connection with the MagnaChip IPO.
  - (h) This adjustment eliminates the impact of loss on (i) for 2011, repurchase of \$46.3 million aggregate principal amount of the 2018 Notes and (ii) for 2013, repayment of \$203.7 million aggregate principal amount of the 2018 Notes.

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 US 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;

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 US GAAP results and using Adjusted Net Income only supplementally.

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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 US 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 US GAAP.

Our Adjusted EBITDA and Adjusted Net Loss for the year ended December 31, 2013 were \$20.0 million and \$31.5 million, respectively. Our Adjusted EBITDA and Adjusted Net Income for the year ended December 31, 2012 were \$124.3 million and \$64.5 million, respectively. Our Adjusted EBITDA and Adjusted Net Income for the year ended December 31, 2011 were \$108.3 million and \$32.2 million, respectively.

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**Factors Affecting Our Results of Operations**

**Net Sales.** We derive virtually all of our sales (net of sales returns and allowances) from three business lines: 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 Korea, the United States, Japan and Greater China. 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 the disposal of waste materials.

We recognize revenue when risk and reward of ownership pass 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 years ended December 31, 2013 and 2012, we sold products to over 284 and 290 customers, respectively, and our net sales to our ten largest customers represented 59% and 61% of our net sales, respectively. We have a combined production capacity of over 131,642 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 including outsourced manufacturing expenses, and variation in depreciation expense.

**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.

**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, 2013, approximately 98% of our employees were eligible for severance benefits.

**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. 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 5 to 12 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.

Prior to July 1, 2011, we depreciated machinery and measurement equipment using the straight-line method over 5 to 10 years. However, based on an evaluation of the appropriateness of depreciable lives including a review of historical usage and an expansion of our Power Solutions business, we determined that machinery and measurement equipment have a longer life than previously estimated. As a result, we changed the estimate of depreciable lives for machinery and measurement equipment to 10 to 12 years. The purpose of this change was to more accurately reflect the productive life of these assets. In accordance with Accounting Standards Codification Topic 250-10-45, Accounting Changes and Error Corrections (ASC 250-10-45), the change in life has been accounted for as a change in accounting estimate on a prospective basis from July 1, 2011. As a result of the change in the estimated life of machinery and measurement equipment, cost of sales was \$4.8 million lower, net income was \$5.2 million higher and net income per diluted share was \$0.13 higher for the year ended December 31, 2011.

***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.

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**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.

**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 lines. Consequently, we do not allocate these expenses to individual lines.

**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.

**Interest Expense, Net.** Our interest expense was incurred primarily under the 2018 Notes and the 2021 Notes.

**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 converted from our non-U.S. revenues and expenses based on monthly average exchange rates, 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) 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 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. Our Korean subsidiary enters into foreign currency option, forward and zero cost collar contracts in order to mitigate a portion of the impact of U.S. dollar-Korean won exchange rate fluctuations on our operating results. 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 \$30.0 million at the end of a fiscal quarter. We cannot assure 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.

**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 balances 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 assess whether it is more likely than not that the deferred tax assets existing at the period-end will be realized in future periods. In such assessment, we consider all available positive and negative evidence, including scheduled reversals of deferred tax liabilities, projected future taxable income, tax planning strategies and recent results of operations. In the event we were to determine that we would be able to realize the deferred income tax assets in the future in excess of their net recorded amount, we would adjust the valuation allowance, which would reduce the provision for income taxes.

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Our operations are subject to income and transaction taxes in the United States and in multiple foreign jurisdictions, including Korea. 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 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.

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***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.



**Table of Contents****Index to Financial Statements****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:

	Year Ended December 31, 2013		Year Ended December 31, 2012 As Restated		Year Ended December 31, 2011 As Restated	
	Amount	% of net sales	Amount (In millions)	% of net sales	Amount	% of net sales
Consolidated statements of operations data:						
Net sales	\$ 734.2	100.0%	\$ 807.3	100.0%	\$ 743.1	100.0%
Cost of sales	579.1	78.9	564.1	69.9	543.6	73.1
Gross profit	155.1	21.1	243.2	30.1	199.5	26.9
Selling, general and administrative expenses	85.8	11.7	82.7	10.2	70.2	9.4
Research and development expenses	87.9	12.0	76.3	9.4	76.6	10.3
Restructuring and impairment charges	8.2	1.1			3.6	0.5
Special expense for IPO incentive					12.1	1.6
Operating income (loss)	(26.8)	(3.6)	84.3	10.4	37.0	5.0
Interest expense, net	(20.4)	(2.8)	(22.6)	(2.8)	(25.0)	(3.4)
Foreign currency gain (loss), net	16.8	2.3	57.3	7.1	(11.3)	(1.5)
Loss on early extinguishment of senior notes	(32.8)	(4.5)			(5.5)	(0.7)
Others	2.9	0.4	3.9	0.5	1.6	0.2
	(33.5)	(4.6)	38.6	4.8	(40.2)	(5.4)
Income (loss) before income taxes	(60.2)	(8.2)	122.9	15.2	(3.2)	(0.4)
Income tax expenses	4.0	0.5	12.8	1.6	8.1	1.1
Net income (loss)	\$ (64.2)	(8.7)%	\$ 110.0	13.6%	\$ (11.3)	(1.5)%
Net Sales:						
Display Solutions	\$ 203.0	27.6	\$ 285.9	35.4	\$ 323.6	43.6
Power Solutions	135.3	18.4	125.0	15.5	87.9	11.8
Semiconductor Manufacturing Services	395.4	53.9	395.9	49.0	330.7	44.5
All other	0.5	0.1	0.6	0.1	0.9	0.1
	\$ 734.2	100.0%	\$ 807.3	100.0%	\$ 743.1	100.0%

**Table of Contents****Index to Financial Statements****Results of Operations Comparison of Years Ended December 31, 2013 and 2012**

The following table sets forth consolidated results of operations for the years ended December 31, 2013 and 2012:

	Year Ended December 31, 2013		Year Ended December 31, 2012 As Restated		Change Amount
	Amount	% of Net Sales	Amount (In millions)	% of Net Sales	
Net sales	\$ 734.2	100.0%	\$ 807.3	100.0%	\$ (73.2)
Cost of sales	579.1	78.9	564.1	69.9	15.0
Gross profit	155.1	21.1	243.2	30.1	(88.2)
Selling, general and administrative expenses	85.8	11.7	82.7	10.2	3.1
Research and development expenses	87.9	12.0	76.3	9.4	11.6
Restructuring and impairment charges	8.2	1.1			8.2
Operating income (loss)	(26.8)	(3.6)	84.3	10.4	(111.1)
Interest expense, net	(20.4)	(2.8)	(22.6)	(2.8)	2.2
Foreign currency gain, net	16.8	2.3	57.3	7.1	(40.4)
Loss on early extinguishment of senior notes	(32.8)	(4.5)			(32.8)
Others	2.9	0.4	3.9	0.5	(1.0)
	(33.5)	(4.6)	38.6	4.8	(72.0)
Income (loss) before income taxes	(60.2)	(8.2)	122.9	15.2	(183.1)
Income tax expenses	4.0	0.5	12.8	1.6	(8.9)
Net income (loss)	\$ (64.2)	(8.7)%	\$ 110.0	13.6%	\$ (174.2)

***Net Sales***

	Year Ended December 31, 2013		Year Ended December 31, 2012 As Restated		Change Amount
	Amount	% of Net Sales	Amount (In millions)	% of Net Sales	
Display Solutions	\$ 203.0	27.6%	\$ 285.9	35.4%	\$ (83.0)
Power Solutions	135.3	18.4	125.0	15.5	10.4
Semiconductor Manufacturing Services	395.4	53.9	395.9	49.0	(0.5)
All other	0.5	0.1	0.6	0.1	
	\$ 734.2	100.0%	\$ 807.3	100.0%	\$ (73.2)

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Net sales were \$734.2 million for the year ended December 31, 2013, a \$73.2 million, or 9.1%, decrease compared to \$807.3 million for the year ended December 31, 2012. Net sales declined in 2013 compared to fiscal year 2012 primarily as a result of significant decrease in revenue related to our Display Solutions line, which was offset by an increase in revenue related to our Power Solutions line as described below.

**Display Solutions.** Net sales from our Display Solutions line were \$203.0 million for the year ended December 31, 2013, a \$83.0 million, or 29.0%, decrease compared to \$285.9 million for the year ended December 31, 2012. The decline in sales volume of our products, mainly related to large displays, contributed to a 44% decline in revenue, partially offset by positive contribution of 14% from the increase in average selling prices. The increase in sales of mobile display chips positively affected both sales volume and average selling prices.

**Power Solutions.** Net sales from our Power Solutions line were \$135.3 million for the year ended December 31, 2013, a \$10.4 million, or 8.3%, increase compared to \$125.0 million for the year ended December 31, 2012. The increase in average selling prices contributed to a 6% increase in revenue, and the increase in sales volume of our products contributed to a 1% increase in revenue. The increase in sales of premium products such as Super Junction MOSFETs positively affected average selling prices, offset by slightly reduced volume for power modules.

**Semiconductor Manufacturing Services.** Net sales from our Semiconductor Manufacturing Services line were \$395.4 million for the year ended December 31, 2013, a \$0.5 million, or 0.1%, decrease compared to \$395.9 million for the year ended December 31, 2012. The decrease in average selling prices contributed to a 1% decrease in revenue. The weak performance of our six-inch fabrication facilities negatively affected both average selling prices and sales volume.

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*All Other.* All other net sales were \$0.5 million for the year ended December 31, 2013 and \$0.6 million for the year ended December 31, 2012.

***Net Sales by Geographic Region***

We report net sales by geographic region based on the location of customers. Revenue from a foreign subsidiary of a multi-national corporation is classified based on the location of the subsidiary. 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 years ended December 31, 2013 and 2012:

	Year Ended December 31, 2013		Year Ended December 31, 2012 As Restated		Change Amount
	Amount	% of Net Sales	Amount (In millions)	% of Net Sales	
Korea	\$ 313.6	42.7%	\$ 365.7	45.3%	\$ (52.0)
Asia Pacific (other than Korea)	284.4	38.7	271.9	33.7	12.5
U.S.A.	100.8	13.7	124.5	15.4	(23.7)
Europe	32.1	4.4	39.3	4.9	(7.2)
Others	3.2	0.4	6.0	0.7	(2.8)
	\$ 734.2	100.0%	\$ 807.3	100.0%	\$ (73.2)

Net sales in Korea for the year ended December 31, 2013 decreased from \$365.7 million to \$313.6 million compared to the year ended December 31, 2012, or by \$52.0 million, or 14.2%, primarily due to decreased demand in the market for Display Solutions products. Net sales in the U.S. for the year ended December 31, 2013 decreased from \$124.5 million to \$100.8 million compared to the year ended December 31, 2012, or by \$23.7 million, or 19.0%, primarily due to decreased demand in the market for Semiconductor Manufacturing Services products serving the smartphone industry.

***Gross Profit***

Total gross profit was \$155.1 million for the year ended December 31, 2013 compared to \$243.2 million for the year ended December 31, 2012, a \$88.2 million, or 36.3%, decrease. Gross profit as a percentage of net sales for the year ended December 31, 2013 decreased to 21.1% compared to 30.1% for the year ended December 31, 2012. This decrease in gross profit and gross margin was primarily attributable to an increase in the impact from inventory reserve and write off of \$33.4 million, non-recurring expenses of \$12.8 million related to settlement of certain commercial disputes and expense accrual of \$9.0 million related to the revised definition of ordinary wages based on the Korean Supreme Court's ruling in December 2013. The increase in inventory reserves was a result of the failure of anticipated orders from customers materializing, which led to significantly higher excess and obsolete reserves. The inventory items related to these higher reserves are mainly comprised of highly customized products.

Additional factors that reduced gross profit and gross margin in 2013 compared to 2012 include a modest decline in the utilization rate, an increase in labor cost as a result of an increase in the average salary, and an increase in the electricity tariffs by Korea Electric Power Corporation. Gross profit and gross margin in 2013 were positively impacted by an increase in average selling prices described above.

***Operating Expenses***

***Selling, General and Administrative Expenses.*** Selling, general and administrative expenses were \$85.8 million, or 11.7% of net sales for the year ended December 31, 2013, compared to \$82.7 million, or 10.2% of net sales for the year ended December 31, 2012. The increase of \$3.1 million, or 3.7%, was primarily attributable to an increase in legal and other outside service fees, offset by a reduction in secondary offering related and other expenses from \$3.3 million in 2012 to \$1.4 million in 2013. The secondary offering related and other expenses of \$3.3 million in 2012 include a \$2.1 million one-time payment of custom duties and penalties related to the decision by Korea Customs Service on certain products manufactured by semiconductor companies operating in Korea that was not incurred in 2013. As a percentage of revenue, selling, general and administrative expenses increased because most expenses in U.S. dollars either remained flat or increased slightly, while revenue

declined.

**Research and Development (R&D) Expenses.** Research and development expenses for the year ended December 31, 2013 were \$87.9 million, or 12.0% of net sales, an increase of \$11.6 million, or 15.2%, from \$76.3 million, or 9.4% of net sales for the year ended December 31, 2012. This increase was primarily due to an increase in use of our manufacturing facilities for R&D activities, increase in R&D headcount and increase in average salary in U.S. dollars.

**Restructuring and Impairment Charges.** Restructuring and impairment charges for the year ended December 31, 2013 were \$8.2 million compared to nil for the year ended December 31, 2012. Restructuring charges of \$1.8 million recorded for the year ended December 31, 2013 were related to the restructuring of our six-inch fabrication facilities. Impairment charges of \$6.4 million for the year ended December 31, 2013 primarily resulted from \$3.4 million of impairment to goodwill, \$1.9 million of impairments of certain technology and \$0.5 million impairments of machinery and equipment, all acquired from the Dawin acquisition, and \$0.6 million of impairments of certain existing technology.

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***Operating Income***

As a result of the foregoing, operating income decreased by \$111.1 million in the year ended December 31, 2013 compared to the year ended December 31, 2012. As discussed above, the decrease in operating income primarily resulted from \$88.2 million decrease in gross profit, \$11.6 million increase in R&D and \$8.2 million increase in restructuring and impairment charges.

***Other Income (Expense)***

***Interest Expense, Net.*** Net interest expense was \$20.4 million for the year ended December 31, 2013, a decrease of \$2.2 million compared to \$22.6 million for the year ended December 31, 2012. The decrease of \$2.2 million was primarily due to the repayment of the 2018 Notes and the issuance of the 2021 Notes.

***Foreign Currency Gain, Net.*** Net foreign currency gain for the year ended December 31, 2013 was \$16.8 million, compared to \$57.3 million for the year December 31, 2012. A substantial portion of our net foreign currency gain or loss is non-cash translation gain or loss associated with intercompany balances 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 intercompany balances was included in determining our consolidated net income since the intercompany balances were not considered long-term investments in nature because management intended to settle these intercompany balances at their respective maturity dates.

***Loss on early extinguishment of senior notes.*** In August 2013, we repaid \$203.7 million aggregate principal amount of the 2018 Notes. In relation with this repayment, we recognized \$32.8 million of loss on early extinguishment of senior notes.

***Others.*** Others were comprised of gains and losses on valuation of derivatives which were designated as hedging instruments. Net gain on valuation of derivatives for the year ended December 31, 2013 represents either hedge ineffectiveness or components of changes in fair value of derivatives excluded from the assessments of hedge effectiveness.

***Income Tax Expenses***

We are subject to income taxes in the United States and many foreign jurisdictions and our effective tax rate is affected by changes in the mix of earnings between countries with differing tax rates. Our primary foreign operations are in Korea where the statutory tax rate applicable to us was approximately 24.2% in 2013 and 2012. Statutory tax rates for all foreign subsidiaries other than our Japanese subsidiary were less than the U.S. federal statutory rate of 35%.

For the years ended December 31, 2013 and 2012, we recorded income tax expense of \$4.0 million and \$12.8 million, respectively. The effective tax rate was (6.6)% for the year ended December 31, 2013, as compared to 10.5% for the year ended December 31, 2012. A significant factor impacting our effective tax rate for the years ended December 31, 2013 and 2012 was intercompany interest related withholding taxes of \$3.9 million and \$4.2 million respectively. Such withholding taxes could be offset by application of foreign tax credits, but due to the uncertainty of utilization, a full valuation allowance was recognized.

The effective tax rate for the year ended December 31, 2012 was impacted by the utilization of loss carryforwards. In the year ended December 31, 2013, losses were recognized for which no tax benefit could be recognized. In addition, there was a \$7.6 million effect of a deemed dividend under section 956 of the US Internal Revenue Code of 1986, as amended ( IRC ), in the year ended December 31, 2012.

***Net Income***

As a result of the foregoing, net income decreased by \$174.2 million, or 158.3%, in the year ended December 31, 2013 compared to the year ended December 31, 2012. As discussed above, the decrease in net income was primarily due to a \$40.4 million decrease in foreign currency gain, a \$32.8 million loss on early extinguishment of senior notes and a \$111.1 million decrease in operating income, partially offset by a \$8.9 million decrease in income tax expenses and a \$2.2 million decrease in interest expense.

**Table of Contents****Index to Financial Statements****Results of Operations Comparison of Years Ended December 31, 2012 and 2011**

The following table sets forth consolidated results of operations for the year ended December 31, 2012 and 2011:

	Year Ended December 31, 2012 As restated		Year Ended December 31, 2011 As Restated		Change Amount
	Amount	% of Net Sales	Amount (In millions)	% of Net Sales	
Net sales	\$ 807.3	100.0%	\$ 743.1	100.0%	\$ 64.2
Cost of sales	564.1	69.9	543.6	73.1	20.5
Gross profit	243.2	30.1	199.5	26.9	43.7
Selling, general and administrative expenses	82.7	10.2	70.2	9.4	12.5
Research and development expenses	76.3	9.4	76.6	10.3	(0.3)
Restructuring and impairment charges			3.6	0.5	(3.6)
Special expense for IPO incentive			12.1	1.6	(12.1)
Operating income	84.3	10.4	37.0	5.0	47.3
Interest expense, net	(22.6)	(2.8)	(25.0)	(3.4)	2.4
Foreign currency gain (loss), net	57.3	7.1	(11.3)	(1.5)	68.6
Loss on early extinguishment of senior notes			(5.5)	(0.7)	5.5
Others	3.9	0.5	1.6	0.2	2.3
	38.6	4.8	(40.2)	(5.4)	78.7
Income (loss) before income taxes	122.9	15.2	(3.2)	(0.4)	126.1
Income tax expenses	12.8	1.6	8.1	1.1	4.7
Net income (loss)	\$ 110.0	13.6%	\$ (11.3)	(1.5)%	\$ 121.3

***Net Sales***

	Year Ended December 31, 2012 As Restated		Year Ended December 31, 2011 As Restated		Change Amount
	Amount	% of Net Sales	Amount (In millions)	% of Net Sales	
Display Solutions	\$ 285.9	35.4%	\$ 323.6	43.6%	\$ (37.7)
Power Solutions	125.0	15.5	87.9	11.8	37.0
Semiconductor Manufacturing Services	395.9	49.0	330.7	44.5	65.1
All other	0.6	0.1	0.9	0.1	(0.3)
	\$ 807.3	100.0%	\$ 743.1	100.0%	\$ 64.2

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Net sales were \$807.3 million for the year ended December 31, 2012, a \$64.2 million, or 8.6%, increase compared to \$743.1 million for the year ended December 31, 2011. Net sales increased in 2012 compared to fiscal year 2011 primarily as a result of an increase in revenue related to our Power Solutions and Semiconductor Manufacturing Services lines, offset by a decrease in revenue related to our Display Solutions line as described below.

**Display Solutions.** Net sales from our Display Solutions line were \$285.9 million for the year ended December 31, 2012, a \$37.7 million, or 11.6%, decrease compared to \$323.6 million for the year ended December 31, 2011. The decrease in sales volume led to a 8% decline in revenue, and a decline in average selling price led to a 2% decline in revenue. A decrease in sales of mobile display chips negatively affected both sales volume and average selling prices.

**Power Solutions.** Net sales from our Power Solutions line were \$125.0 million for the year ended December 31, 2012, a \$37.0 million, or 42.1%, increase compared to \$87.9 million for the year ended December 31, 2011. The increase in sales volume contributed to a 25% increase in revenue and an increase in average selling prices contributed to a 19% increase in revenue. An increase in the sale of premium products positively affected average selling prices.

**Semiconductor Manufacturing Services.** Net sales from our Semiconductor Manufacturing Services line were \$395.9 million for the year ended December 31, 2012, a \$65.1 million, or 19.7%, increase compared to \$330.7 million for the year ended December 31, 2011. This increase in sales volume of eight-inch equivalent wafers contributed to a 13% increase in revenue and an increase in average selling prices contributed to a 10% increase in revenue.



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*All Other.* All other net sales were \$0.6 million for the year ended December 31, 2012, and \$0.9 million for the year ended December 31, 2011.

***Net Sales by Geographic Region***

We report net sales by geographic region based on the location of customers. Revenue from a foreign subsidiary of a multi-national corporation is classified based on the location of the subsidiary. 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 years ended December 31, 2012 and 2011:

	Year Ended December 31, 2012 As Restated		Year Ended December 31, 2011 As Restated		Change Amount
	Amount	% of Net Sales	Amount (In millions)	% of Net Sales	
Korea	\$ 365.7	45.3%	\$ 372.7	50.2%	\$ (7.1)
Asia Pacific (other than Korea)	271.9	33.7	271.5	36.5	0.4
U.S.A.	124.5	15.4	75.4	10.1	49.1
Europe	39.3	4.9	14.0	1.9	25.3
Others	6.0	0.7	9.5	1.3	(3.5)
	\$ 807.3	100.0%	\$ 743.1	100.0%	\$ 64.2

Net sales in the U.S. for the year ended December 31, 2012 increased from \$75.4 million to \$124.5 million compared to the year ended December 31, 2011, or by \$49.1 million, or 65.1%, primarily due to increased demand in the market for our Semiconductor Manufacturing Services products. Net sales in Europe for the year ended December 31, 2012 increased from \$14.0 million to \$39.3 million compared to the year ended December 31, 2011, or by \$25.3 million, or 180.3%, primarily due to increased demand in the market for our Semiconductor Manufacturing Services products.

***Gross Profit***

Total gross profit was \$243.2 million for the year ended December 31, 2012 compared to \$199.5 million for the year ended December 31, 2011, a \$43.7 million, or 21.9%, increase. Gross profit as a percentage of net sales for the year ended December 31, 2012 increased to 30.1% compared to 26.9% for the year ended December 31, 2011. This increase in gross profit was primarily attributable to an increase in average selling prices and utilization rate and a decrease in depreciation expense, which were partially offset by a \$6.0 million increase in inventory reserves, non-recurring expenses related to the settlement of certain commercial disputes of \$1.6 million compared to \$2.1 million of such expenses in 2011, and other increases in costs due to an increase in manufacturing headcount, average salary, facility repair and maintenance expenses, and outsourced manufacturing expenses.

***Operating Expenses***

***Selling, General and Administrative Expenses.*** Selling, general and administrative expenses were \$82.7 million, or 10.2% of net sales for the year ended December 31, 2012, compared to \$70.2 million, or 9.4% of net sales for the year ended December 31, 2011. The increase of \$12.5 million, or 17.7%, was primarily attributable to an increase in salaries and related expenses resulting from an annual salary increase, an increase in headcount, a \$2.1 million increase from a one-time payment of custom duties and penalties recorded in 2012, related to the decision by the Korea Customs Service on certain products manufactured by certain semiconductor companies operating in Korea, and an increase in outside service fees in 2012 compared to 2011 related to secondary offering expenses.

***Research and Development Expenses.*** Research and development expenses for the year ended December 31, 2012 were \$76.3 million, or 9.4% of net sales, a decrease of \$0.3 million, or 0.4%, from \$76.6 million, or 10.3% of net sales for the year ended December 31, 2011. This decrease was primarily due to a small decrease in the use of our manufacturing facilities for R&D activities, partially offset by an increase in salaries and related expenses resulting from an annual salary increase.

***Restructuring and Impairment Charges.*** We had no restructuring and impairment charges for the year ended December 31, 2012 compared to \$3.6 million for the year ended December 31, 2011. Restructuring charges of \$1.1 million recorded for the year ended December 31, 2011 were related to the closure of our research and development center in Japan and our sales subsidiary in the United Kingdom. Impairment charges of \$2.5 million for the year ended December 31, 2011 consisted of \$2.0 million from twelve abandoned in-process research and development projects and one dropped existing technology, \$0.4 million from one abandoned system project and \$0.1 million from impairment of tangible and intangible assets.

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**Special expense for the MagnaChip IPO Incentive.** We paid \$12.1 million in special cash incentive payments to all employees, excluding management, which were contingent upon the consummation of the MagnaChip IPO in March 2011, and had no corresponding expense in 2012.

**Operating Income**

As a result of the foregoing, operating income increased by \$47.3 million, or 128.0%, in the year ended December 31, 2012 compared to the year ended December 31, 2011. As discussed above, the increase in operating income primarily resulted from a \$43.7 million increase in gross profit, the payment of a \$12.1 million special cash incentive to all employees, excluding management, in connection with the MagnaChip IPO in 2011, a \$3.6 million decrease in restructuring and impairment charges and a \$0.3 million decrease in research and development expenses, which were partially offset by a \$12.5 million increase in selling, general and administrative expenses.

**Other Income (Expense)**

**Interest Expense, Net.** Net interest expense was \$22.6 million for the year ended December 31, 2012, a decrease of \$2.4 million compared to \$25.0 million for the year ended December 31, 2011. Interest expense for the years ended December 31, 2012 and 2011 was incurred primarily under our 2018 Notes originally issued on April 9, 2010. This decrease from 2011 to 2012 was attributable to the repurchase of \$35.0 million and \$11.3 million out of an initial aggregate amount of \$250.0 million of our 2018 Notes on May 16, 2011 and on September 19, 2011, respectively.

**Foreign Currency Gain (Loss), Net.** Net foreign currency gain for the year ended December 31, 2012 was \$57.3 million, compared to net foreign currency loss of \$11.3 million for the year December 31, 2011. A substantial portion of our net foreign currency gain or loss is non-cash translation gain or loss associated with intercompany balances 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 intercompany balances was included in determining our consolidated net income since the intercompany balances were not considered long-term investments in nature because management intended to settle these intercompany balances at their respective maturity dates.

**Loss on early extinguishment of senior notes.** We repurchased \$35.0 million and \$11.3 million out of \$250.0 million aggregate principal amount of our 2018 Notes originally outstanding on May 16 and September 19, 2011, respectively. We recognized \$5.5 million of loss on the early extinguishment of our 2018 Notes, which consisted of \$4.0 million from a repurchase premium, \$0.6 million from the write-off of discounts, \$0.6 million from write-off of debt issuance costs and \$0.3 million from the incurrence of direct legal and advisory service fees.

**Others.** Others were comprised of gains and losses on valuation of derivatives which were designated as hedging instruments. Net gain on valuation of derivatives for the year ended December 31, 2012 represents either hedge ineffectiveness or components of changes in fair value of derivatives excluded from the assessments of hedge effectiveness.

**Income Tax Expenses**

We are subject to income taxes in the United States and many foreign jurisdictions and our effective tax rate is affected by changes in the mix of earnings between countries with differing tax rates. Our primary foreign operations are in Korea where the statutory tax rate applicable to us was approximately 24.2% in 2012 and 2011. Statutory tax rates for all foreign subsidiaries other than our Japanese subsidiary were less than the U.S. federal statutory rate of 35%.

For the years ended December 31, 2012 and 2011, we recorded income tax expense of \$12.8 million and \$8.1 million, respectively. The effective tax rate was 10.5% for the year ended December 31, 2012, as compared to (254.7)% for the year ended December 31, 2011. A significant factor impacting our effective tax rate for the years ended December 31, 2012 and 2011 was intercompany interest related withholding taxes of \$4.2 million and \$5.9 million, respectively. Such withholding taxes could be offset by application of foreign tax credits, but due to the uncertainty of utilization, a full valuation allowance was recognized.

The effective tax rate for the year ended December 31, 2012 was impacted by the utilization of loss carryforwards. In the year ended December 31, 2011, losses were recognized for which no tax benefit could be recognized. In addition, there was a \$7.6 million effect of a deemed dividend under IRC section 956 in the year ended December 31, 2012.

**Net Income**

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As a result of the foregoing, net income increased by \$121.3 million in the year ended December 31, 2012 compared to the year ended December 31, 2011. As discussed above, the increase in net income was primarily due to a \$68.6 million increase in foreign currency gain, a \$47.3 million increase in operating income, a \$2.4 million decrease in interest expenses, a \$5.5 million loss on the early extinguishment of our 2018 Notes for the year ended December 31, 2011, partially offset by a \$4.7 million increase in income tax expenses.

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**Liquidity and Capital Resources**

Our principal capital requirements are to fund sales and marketing, 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, cash equivalents and our cash flows from operations and our financing activities. Our ability to manage cash and cash equivalents may be limited, as our primary cash flows are dictated by the terms of our sales and supply agreements, contractual obligations, debt instruments and legal and regulatory requirements. From time to time, we may sell accounts receivable to third parties under factoring agreements or engage in accounts receivable discounting to facilitate the collection of cash. For a description of our factoring arrangements and accounts receivable discounting, please see Item 8. Financial Statements and Supplementary Data Notes to Consolidated Financial Statements Note 4. Accounts Receivable included elsewhere in this Report. In addition, from time to time, we may make payments to our vendors on extended terms with their consent.

Although we currently anticipate that our cash and cash equivalents on hand and cash flows from operations will be sufficient to meet our expected cash needs for the next twelve months, we may require or choose to obtain additional financing. 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 capital expenditures, sales and marketing, and research and development activities.

**Year ended December 31, 2013 compared to year ended December 31, 2012**

As of December 31, 2013, our cash and cash equivalents balance was \$153.6 million, a \$28.6 million decrease, compared to \$182.2 million as of December 31, 2012. The decrease resulted from \$44.1 million of cash outflow used in investing activities and \$50.1 million of cash outflow used in financing activities including our repurchase of \$51.0 million of our common stock, which was offset by \$68.8 million of cash inflow provided by operating activities.

On October 7, 2011, our Board adopted a stock repurchase program whereby we may, subject to prevailing market conditions and other factors, repurchase up to \$35.0 million of our outstanding common stock. Our Board extended and increased the program by an additional \$25.0 million in August 2012, for a maximum aggregate repurchase amount under the original program of up to \$60.0 million. On July 30, 2013, we announced that the Board approved a new stock repurchase program under which we are authorized to repurchase up to \$100.0 million of our common stock. The new stock repurchase program was effective August 5, 2013 through December 15, 2014, and replaced the original stock repurchase program. The stock repurchase program did not require that we purchase a minimum amount of shares of our common stock and may be commenced, suspended, resumed or terminated at any time without notice. The timing and extent of any repurchases were dependent upon prevailing market conditions, the trading price of the Company's common stock and other factors, and subject to contractual restrictions and restrictions under applicable law and regulations. As of December 31, 2013, we had repurchased 6,578,765 shares of our common stock in the open market under these programs at an aggregate cost of \$90.9 million. In March 2014, the Board suspended the stock repurchase program indefinitely pending the completion of the Independent Investigation, and the stock repurchase program expired by its terms on December 15, 2014. Subsequent to December 31, 2013, we did not repurchase any shares under the stock repurchase program.

Cash inflows generated by operating activities totaled \$68.8 million for the year ended December 31, 2013, compared to \$118.1 million of cash provided by operating activities in the year ended December 31, 2012. The net operating cash inflow for the year ended December 31, 2013 reflects our net loss of \$64.2 million and non-cash adjustments of \$81.3 million, which mainly consisted of depreciation and amortization, provision for severance benefits, a loss on early extinguishment of senior notes and a decrease in net operating assets of \$51.6 million.

Our working capital balance as of December 31, 2013 was \$172.1 million compared to \$238.6 million as of December 31, 2012. The \$66.5 million decrease was primarily attributable to a \$27.1 million decrease in accounts receivable, a \$28.6 million decrease in cash and cash equivalents and a \$18.1 million increase in accrued expense. Our accounts receivable balance declined due to increased collection efforts by the Company. The increase in accrued expense is a result of increased accrual of salaries and related benefits, settlement obligations and withholding taxes on interest.

Cash flows used in investing activities totaled \$44.1 million in the year ended December 31, 2013, compared to \$60.5 million of cash used in investing activities in the year ended December 31, 2012. The decrease was primarily due to a decrease in capital expenditures of \$16.3 million and \$8.6 million related to the Dawin acquisition, which were partially offset by a \$6.7 million change in restricted cash.

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Cash outflow used in financing activities totaled \$50.1 million for the year ended December 31, 2013, compared to \$30.1 million of cash outflow used in financing activities for the year ended December 31, 2012. The financing cash outflow for the year ended December 31, 2013 mainly consisted of the repayment of \$229.3 million of our 2018 Notes and the repurchase of \$51.0 million of our outstanding common stock, which were offset by \$11.4 million of proceed received from the issuance of common stock in connection with option and warrant exercises and the net proceeds of \$218.8 million from the issuance of our 2021 Notes. We repurchased 2,614,748 shares of common stock at a cost of \$51.0 million for the year ended December 31, 2013.

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For the year ended December 31, 2013, capital expenditures were \$43.1 million, a \$16.3 million, or 27.5%, decrease from \$59.4 million in the year ended December 31, 2012. The decrease was primarily due to a comparatively larger high-technology investment in 2012.

#### **Year ended December 31, 2012 compared to year ended December 31, 2011**

As of December 31, 2012, our cash and cash equivalents balance was \$182.2 million, a \$20.1 million increase, compared to \$162.1 million as of December 31, 2011. The increase resulted from \$118.1 million of cash inflow provided by operating activities, which was offset by \$60.5 million of cash outflow used in investing activities including \$8.6 million related to the Dawin acquisition and \$30.1 million of cash outflow used in financing activities including our repurchase of \$28.1 million of our common stock.

Cash inflows generated by operating activities totaled \$118.1 million for the year ended December 31, 2012, compared to \$103.6 million of cash provided by operating activities in the year ended December 31, 2011. The net operating cash inflow for the year ended December 31, 2012 reflects our net income of \$110.0 million and non-cash adjustments of \$(8.6) million, which mainly consisted of gain on foreign currency translation, depreciation and amortization and accrued severance benefits and a decrease in net operating assets of \$16.6 million.

Our working capital balance as of December 31, 2012 was \$238.6 million compared to \$212.0 million as of December 31, 2011. The \$26.6 million increase was primarily attributable to a \$20.1 million increase in cash and cash equivalents and a \$19.7 million increase in inventories, which were partially offset by a \$11.9 million increase in accrued expense.

Cash flows used in investing activities totaled \$60.5 million in the year ended December 31, 2012, compared to \$56.1 million of cash used in investing activities in the year ended December 31, 2011. The increase was primarily due to \$8.6 million related to the Dawin acquisition and a \$11.6 million increase in capital expenditures, which were partially offset by a \$14.0 million change in restricted cash.

Cash outflow used in financing activities totaled \$30.1 million for the year ended December 31, 2012, compared to \$59.1 million of cash outflow used in financing activities for the year ended December 31, 2011. The financing cash outflow for the year ended December 31, 2012 mainly consists of the repurchase of \$28.1 million of our outstanding common stock and \$3.0 million repayment of capital lease obligations. We repurchased 2,432,477 shares of common stock at a cost of \$28.1 million for the year ended December 31, 2012.

For the year ended December 31, 2012, capital expenditures were \$59.4 million, a \$11.6 million, or 24.3%, increase from \$47.8 million in the year ended December 31, 2011. The increase was due to supporting capacity expansion and technology improvements at our fabrication facilities in anticipation of sales growth.

### **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. In our Display Solutions and Power Solutions business lines, 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.

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The following summarizes our contractual obligations as of December 31, 2013:

	Total	2014	Payments Due by Period				2018	Thereafter
			2015	2016	2017	(In millions)		
Senior notes(1)	\$ 344.1	\$ 14.8	\$ 14.9	\$ 14.9	\$ 14.9	\$ 14.9	\$ 269.7	
Operating lease(2)	53.3	6.0	5.4	4.6	2.2	2.2	32.8	
Others(3)	18.1	9.6	6.5	2.0				

- (1) Interest payments as well as \$225.0 million aggregate principal amount of the 2021 Notes outstanding as of December 31, 2013, which bear interest at a rate of 6.625% per annum and are scheduled to mature in 2021.
- (2) Assumes constant currency exchange rate for Korean won to U.S. dollars of 1,055.3:1.
- (3) Includes license agreements and other contractual obligations.

The indenture relating to the 2021 Notes contains covenants that limit our ability and 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 the restricted subsidiaries; (ii) make any principal payment on, or redeem or repurchase, prior to any scheduled repayment 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; (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 us or other restricted subsidiaries, 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 \$3.7 million as of December 31, 2013. 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.

**Critical Accounting Policies and Estimates**

Preparing financial statements in conformity with US 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 Item 8. Financial Statements and Supplementary Data Notes to Consolidated Financial Statements Note 1. Business, Basis of Presentation and Significant Accounting Policies included elsewhere in this Report, 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**



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Revenue is recognized when there is persuasive evidence of an arrangement, the price to the buyer is fixed or determinable, delivery has occurred and collectability of the sales price is reasonably assured. Revenue from the sale of products is recognized when title and risk of loss transfers to the customer, which is generally when the product is shipped to or accepted by the customer depending on the terms of the arrangement.

A portion of our sales are made through distributors for which revenue recognition criteria are usually met when the product is shipped to or accepted by the distributor, consistent with the principles described above. However, the risk of loss may not pass upon shipment of products to the distributors due to a variety of reasons, including the nature of the business arrangement with the distributors. For example, the financial condition of a distributor may indicate that payments by the distributor to us are contingent on resale of products to an end customer. In this situation, we defer recognition of revenue and cost of revenue on transactions with such distributor until we are informed by the distributor that the product has been resold to the end customer.

In accordance with revenue recognition guidance, any tax assessed by a governmental authority that is directly imposed on a revenue-producing transaction between a seller and a customer is presented in the statements of operations on a net basis (excluded from revenues).

We provide a warranty, under which customers can return defective products. We estimate the costs related to those defective product returns and record them as a component of cost of sales.

In addition, we offer sales returns (other than those that relate to defective products under warranty), yield provisions, cash discounts for early payments and certain allowances to our customers, including distributors. We record reserves for those returns, discounts and allowances as a deduction from sales, based on historical experience and other quantitative and qualitative factors.

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 selling, general and administrative expenses.

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***Sales of Accounts Receivable***

We account for transfers of financial assets under ASC 860, *Transfers and Servicing*, as either sales or financings. Transfers of financial assets that result in sales accounting are those in which (1) the transfer legally isolates the transferred assets from the transferor, (2) the transferee has the right to pledge or exchange the transferred assets and no condition both constraints the transferee's right to pledge or exchange the assets and provides more than a trivial benefit to the transferor and (3) the transferor does not maintain effective control over the transferred assets. If the transfer does not meet these criteria, the transfer is accounted for as a financing. Financial assets that are treated as sales are removed from our accounts with any realized gain or loss reflected in earnings during the period of sale.

***Product Warranties***

We record, in other current liabilities, warranty liabilities for the estimated costs that may be incurred under our basic limited warranty. The standard limited warranty period is one year for the majority of products. This warranty covers defective products, and related liabilities are accrued when product revenues are recognized. Factors that affect our warranty liability include historical and anticipated rates of warranty claims and repair or replacement costs per claim to satisfy our warranty obligation. 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 when necessary.

***Inventories***

Inventories are stated at the lower of cost or market, using the average cost method, which approximates the first in, first out method ( FIFO ). If net realizable value is less than cost at the balance sheet date, the carrying amount is reduced to the realizable value, and the difference is recognized as a loss on valuation of inventories within cost of sales. Inventory reserves are established when conditions indicate that the net realizable value is less than costs due to physical deterioration, obsolescence, changes in price levels or other causes based on individual facts and circumstances. Reserves are also established for excess inventory based on inventory levels in excess of six months of projected demand for each specific product.

In addition, as prescribed in ASC 330, *Inventory*, the cost of inventories is determined based on the normal capacity of each fabrication facility. In case the capacity utilization is lower than a certain level that management believes to be normal, the fixed overhead costs per production unit which exceed those under normal capacity are charged to cost of sales rather than capitalized as inventories.

***Impairment of Long-Lived Assets***

We review property, plant and equipment and other long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable in accordance with ASC 360, *Property, Plant and Equipment* ( ASC 360 ). Recoverability is measured by comparing its carrying amount with the future net undiscounted cash flows the assets are expected to generate. If such assets are considered to be impaired, the impairment is measured as the difference between the carrying amount of the assets and the fair value of assets using the present value of the future net cash flows generated by the respective long-lived assets.

***Intangible Assets***

Intangible assets other than intellectual property include technology and customer relationships which are amortized on a straight-line basis over periods ranging from one to five years. Intellectual property assets acquired represent rights under patents, trademarks and property use rights and are amortized over their respective periods of benefit, ranging up to ten years, on a straight-line basis.

***Income Taxes***

Prior to its conversion to a corporation, MagnaChip Semiconductor LLC elected to be treated as a partnership for U.S. federal income tax purposes and therefore was not subject to income taxes on its income. Taxes on its income were the responsibility of the individual equity owners of MagnaChip Semiconductor LLC. MagnaChip Semiconductor Corporation became a taxable entity according to the corporate conversion in March 2011. The Company operates a number of subsidiaries that are subject to local income taxes in those territories.

The Company accounts for income taxes in accordance with ASC 740, *Income Taxes* ( ASC 740 ). ASC 740 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 tax

returns. Under this method, deferred tax assets and liabilities are determined based upon the difference between the financial statement carrying amounts 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 it is 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.

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The Company recognizes and measures uncertain tax positions taken or expected to be taken in a tax return utilizing a two-step process. In the first step, recognition, the Company determines whether it is more-likely-than-not that a tax position will be sustained upon examination, including resolution of any related appeals or litigation processes, based on the technical merits of the position. The second step addresses measurement of a tax position that meets the more-likely-than-not criteria. The tax position is measured at the largest amount of benefit that has a likelihood of greater than 50 percent of being realized upon ultimate settlement.

***Derivative Financial Instruments***

We apply the provisions of ASC 815, Derivatives and Hedging ( ASC 815 ). This Statement requires the recognition of all derivative instruments as either assets or liabilities measured at fair value.

Under the provisions of ASC 815, we may designate a derivative instrument as hedging the exposure to variability in expected future cash flows that are attributable to a particular risk (a cash flow hedge ) or hedging the exposure to changes in the fair value of an asset or a liability (a fair value hedge ). Special accounting for qualifying hedges allows the effective portion of a derivative instrument's gains and losses to offset related results on the hedged item in the consolidated statements of operations and requires that a company formally document, designate and assess the effectiveness of the transactions that receive hedge accounting treatment. Both at the inception of a hedge and on an ongoing basis, a hedge must be expected to be highly effective in achieving offsetting changes in cash flows or fair value attributable to the underlying risk being hedged. If we determine that a derivative instrument is no longer highly effective as a hedge, it discontinues hedge accounting prospectively and future changes in the fair value of the derivative are recognized in current earnings. We assess hedge effectiveness at the end of each quarter.

In accordance with ASC 815, changes in the fair value of derivative instruments that are cash flow hedges are recognized in accumulated other comprehensive income (loss) and reclassified into earnings in the period in which the hedged item affects earnings. Ineffective portions of a derivative instrument's change in fair value are immediately recognized in earnings. Derivative instruments that do not qualify, or cease to qualify, as hedges must be adjusted to fair value and the adjustments are recorded through net income (loss).

The cash flows from derivative instruments receiving hedge accounting treatment are classified in the same categories as the hedged items in the consolidated statements of cash flows.

***Recent Accounting Pronouncements***

In June 2014, the FASB issued Accounting Standards Update No. 2014-11, Transfers and Servicing (Topic 860): Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures ( ASU 2014-11 ). The guidance in this update changes the accounting for repurchase-to-maturity transactions and repurchasing financing arrangements. It also requires enhanced disclosures about repurchase agreements and other similar transactions. The accounting changes in this update are effective for public companies for the first interim or annual period beginning after December 15, 2014. In addition, for public companies, the disclosure for certain transactions accounted for as a sale is effective for the first interim or annual period beginning on or after December 15, 2014, and the disclosure for transactions accounted for as secured borrowings is required to be presented for annual periods beginning after December 15, 2014, and interim periods beginning after March 15, 2015. Early application is not permitted. We are currently evaluating the impact of the adoption of ASU 2014-11 on our consolidated financial statements.

In May 2014, the FASB issued Accounting Standards Update No. 2014-09 Revenue from Contracts with Customers. ( ASU 2014-09 ). ASU 2014-09 supersedes the revenue recognition requirements in Revenue Recognition (Topic 605) , and requires entities to recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services. ASU 2014-09 is effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. Early adoption is not permitted. We are currently evaluating the impact of the adoption of ASU 2014-09 on our consolidated financial statements.

In July 2013, the FASB issued Accounting Standards Update No. 2013-11, Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists ( ASU 2013-11 ). The adoption of ASU 2013-11 will require an unrecognized tax benefit, or a portion of an unrecognized tax benefit to be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward, unless an exception applies. The amendments in this update are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2013. The adoption of this standard did not have a material impact on our consolidated financial statements.

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In February 2013, the FASB issued Accounting Standards Update No. 2013-02, Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income, ( ASU 2013-02 ) which requires an entity to provide information about the amounts reclassified out of accumulated other comprehensive income by component. In addition, ASU 2013-02 requires an entity to present, either on the face of the income statement or in the notes to financial statements, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income but only if the amount reclassified is required under US GAAP to be reclassified to net income in its entirety in the same reporting period. For other amounts, an entity is required to cross-reference to other disclosures required under US GAAP that provide additional detail about those amounts. The

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update does not change the current requirements for reporting net income or other comprehensive income in financial statements and is effective prospectively for reporting periods beginning after December 15, 2012. The adoption of ASU 2013-02 did not have a material impact on our consolidated financial statements.

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**Item 7A. 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, 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, 2013 for our Korean subsidiary, a 10% devaluation of the Korean won against the U.S. dollar would have resulted in a decrease of \$4.2 million in our U.S. dollar financial instruments and cash balances. Based on the Japanese yen cash balance at December 31, 2013, a 10% devaluation of the Japanese yen against the U.S. dollar would have resulted in a decrease of \$0.1 million in our U.S. dollar cash balance.

See Note 9. Derivative Financial Instruments to our consolidated financial statements under Item 8. Financial Statements and Supplementary Data and Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations Factors Affecting Our Results of Operations Impact of Foreign Currency Exchange Rates on Reported Results of Operations for additional information regarding our foreign exchange hedging activities.

**Interest Rate Exposures**

As of December 31, 2013, \$225.0 million aggregate principal amount of senior notes were outstanding. Our senior notes 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, 2013, we estimate that the fair value of this fixed rate note would decrease by \$8.6 million and we would have additional interest expense costs over the market rate of \$0.9 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, 2013, we estimate that the fair value of this fixed rate note would increase by \$9.0 million and we would have a reduction in interest expense costs over the market rate of \$1.0 million (on a 360-day basis).

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Stockholders of

MagnaChip Semiconductor Corporation

In our opinion, the consolidated financial statements listed in the accompanying index present fairly, in all material respects, the financial position of MagnaChip Semiconductor Corporation and its subsidiaries (the Company) at December 31, 2013, 2012 and 2011, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2013 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company did not maintain, in all material respects, effective internal control over financial reporting as of December 31, 2013, based on criteria established in *Internal Control Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) because material weaknesses in internal control over financial reporting related to (1) not maintaining an effective control environment, with respect to: (i) an attitude of integrity and ethics against the pressure to achieve sales, gross margin and adjusted EBITDA targets, (ii) adherence to U.S. GAAP, (iii) utilization of the whistleblower program, (iv) prevention or detection of undisclosed business practices involving the circumvention of numerous internal controls under the management team then in place, and (v) appropriate level of accounting knowledge, experience and training commensurate with the Company's financial reporting requirements under U.S. GAAP; (2) not maintaining effective monitoring activities to evaluate and communicate internal control deficiencies in a timely manner to those parties responsible for taking corrective actions, including maintaining an effective internal audit function; (3) not designing effective controls over the completeness and accuracy of period end adjusting entries; and (4) not designing effective controls over the completeness and accuracy of the Company's income tax accounting and disclosures, which existed as of that date. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the annual or interim financial statements will not be prevented or detected on a timely basis. The material weaknesses referred to above are described in Management's Report on Internal Control Over Financial Reporting under Item 9A. We considered these material weaknesses in determining the nature, timing, and extent of audit tests applied in our audit of the December 31, 2013 consolidated financial statements, and our opinion regarding the effectiveness of the Company's internal control over financial reporting does not affect our opinion on those consolidated financial statements. The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in management's report referred to above. Our responsibility is to express opinions on these financial statements, and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

As discussed in Note 2 to the consolidated financial statements, the Company has restated its 2012 and 2011 consolidated financial statements to correct for errors.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Samil PricewaterhouseCoopers

Seoul, Korea

February 12, 2015

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	December 31,		
	2013	2012	2011
	(As Restated)		
	(In thousands of US dollars, except share data)		
<b>Assets</b>			
Current assets			
Cash and cash equivalents	\$ 153,606	\$ 182,238	\$ 162,111
Restricted cash	4	133	6,830
Accounts receivable, net	78,898	105,983	102,622
Inventories, net	74,698	82,384	62,683
Other receivables	6,011	1,560	509
Prepaid expenses	9,194	7,884	6,032
Current deferred income tax assets	1,348	1,788	2,076
Other current assets	10,403	10,624	12,471
<b>Total current assets</b>	<b>334,162</b>	<b>392,594</b>	<b>355,334</b>
Property, plant and equipment, net	254,297	237,392	182,663
Intangible assets, net	3,111	15,260	16,787
Long-term prepaid expenses	16,405	18,048	4,790
Deferred income tax assets	896	2,586	4,770
Other non-current assets	16,319	14,866	15,002
<b>Total assets</b>	<b>\$ 625,190</b>	<b>\$ 680,746</b>	<b>\$ 579,346</b>
<b>Liabilities and Stockholders' Equity</b>			
Current liabilities			
Accounts payable	\$ 75,059	\$ 79,365	\$ 77,880
Other accounts payable	15,670	16,759	13,452
Accrued expenses	65,494	47,375	35,469
Current portion of capital lease obligation			2,852
Derivative liabilities		944	9,757
Other current liabilities	5,872	9,544	3,893
<b>Total current liabilities</b>	<b>162,095</b>	<b>153,987</b>	<b>143,303</b>
Long-term borrowings, net	223,923	201,653	201,389
Accrued severance benefits, net	134,172	114,858	92,432
Other non-current liabilities	23,459	18,719	8,050
<b>Total liabilities</b>	<b>543,649</b>	<b>489,217</b>	<b>445,174</b>
Commitments and contingencies (Note 20)			
Stockholders' equity			
Common stock, \$0.01 par value, 150,000,000 shares authorized, 40,627,131 shares issued and 34,048,366 outstanding at December 31, 2013, 39,599,374 shares issued and 35,635,357 outstanding at December 31, 2012 and 39,439,115 shares issued and 37,907,575 outstanding at December 31, 2011	406	396	394

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Additional paid-in capital	116,222	102,409	99,060
Retained earnings	105,889	170,092	60,054
Treasury stock, 6,578,765, 3,964,017 and 1,531,540 shares at December 31, 2013, 2012 and 2011, respectively	(90,918)	(39,918)	(11,793)
Accumulated other comprehensive loss	(50,058)	(41,450)	(13,543)
Total stockholders' equity	81,541	191,529	134,172
Total liabilities and stockholders' equity	\$ 625,190	\$ 680,746	\$ 579,346

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

**Table of Contents****Index to Financial Statements****MAGNACHIP SEMICONDUCTOR CORPORATION AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF OPERATIONS**

	Year Ended December 31,		
	2013 (In thousands of US dollars, except share data)	2012 (As Restated)	2011 (As Restated)
Net sales	\$ 734,177	\$ 807,336	\$ 743,130
Cost of sales	579,109	564,089	543,596
<b>Gross profit</b>	<b>155,068</b>	<b>243,247</b>	<b>199,534</b>
Selling, general and administrative expenses	85,767	82,677	70,223
Research and development expenses	87,862	76,255	76,589
Restructuring and impairment charges	8,207		3,599
Special expense for IPO incentive			12,146
<b>Operating income (loss)</b>	<b>(26,768)</b>	<b>84,315</b>	<b>36,977</b>
<b>Other income (expenses)</b>			
Interest expense, net	(20,360)	(22,600)	(24,984)
Foreign currency gain (loss), net	16,837	57,280	(11,348)
Loss on early extinguishment of senior notes	(32,812)		(5,459)
Others	2,870	3,890	1,628
	(33,465)	38,570	(40,163)
<b>Income (loss) before income taxes</b>	<b>(60,233)</b>	<b>122,885</b>	<b>(3,186)</b>
Income tax expenses	3,970	12,847	8,115
<b>Net income (loss)</b>	<b>\$ (64,203)</b>	<b>\$ 110,038</b>	<b>\$ (11,301)</b>
<b>Earnings (loss) per common share</b>			
Basic	\$ (1.82)	\$ 3.01	\$ (0.29)
Diluted	\$ (1.82)	\$ 2.93	\$ (0.29)
<b>Weighted average number of shares</b>			
Basic	35,232,194	36,567,684	38,775,642
Diluted	35,232,194	37,533,391	38,775,642

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

**Table of Contents****Index to Financial Statements****MAGNACHIP SEMICONDUCTOR CORPORATION AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

	Year Ended December 31,		
	2013	2012	2011
	(As Restated)	(As Restated)	(As Restated)
	(In thousands of US dollars, except share data)		
Net income (loss)	\$ (64,203)	\$ 110,038	\$ (11,301)
Other comprehensive income (loss)			
Foreign currency translation adjustments	(13,727)	(37,737)	8,373
Derivative adjustments			
Fair valuation of derivatives	7,497	5,237	(5,559)
Reclassification adjustment for loss (gain) on derivatives included in net income (loss)	(2,984)	4,608	(10,979)
Unrealized gain (loss) on investments	606	(15)	(103)
Total comprehensive income (loss)	\$ (72,811)	\$ 82,131	\$ (19,569)

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

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## MAGNACHIP SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY

(In thousands of US dollars, except share data)	Common Stock		Additional Paid-In Capital	Retained earnings	Treasury Stock	Accumulated Other Comprehensive Loss	Total
	Shares	Amount					
<b>Balance at January 1, 2011 (As Previously Reported)</b>	38,401,989	\$ 384	\$ 95,585	\$ 72,157	\$	\$ (5,275)	\$ 162,851
<b>Adjustments to stockholders equity</b>			(827)	(802)			(1,629)
<b>Balance at January 1, 2011 (As Restated)</b>	38,401,989	\$ 384	\$ 94,758	\$ 71,355	\$	\$ (5,275)	\$ 161,222
Forfeiture of restricted stock	(3,465)						
Stock-based compensation			2,216				2,216
Issuance of common stock	950,586	10	1,557				1,567
Exercise of stock options	90,005		529				529
Acquisition of treasury stock	(1,531,540)				(11,793)		(11,793)
Other comprehensive loss, net						(8,268)	(8,268)
Net loss				(11,301)			(11,301)
<b>Balance at December 31, 2011 (As Restated)</b>	37,907,575	\$ 394	\$ 99,060	\$ 60,054	\$ (11,793)	\$ (13,543)	\$ 134,172
Stock-based compensation			2,389				2,389
Issuance of common stock	4,499		46				46
Exercise of stock options	155,708	2	914				916
Exercise of warrants	52						
Acquisition of treasury stock	(2,432,477)				(28,125)		(28,125)
Other comprehensive loss, net						(27,907)	(27,907)
Net Income				110,038			110,038
<b>Balance at December 31, 2012 (As Restated)</b>	35,635,357	\$ 396	\$ 102,409	\$ 170,092	\$ (39,918)	\$ (41,450)	\$ 191,529
Stock-based compensation			2,213				2,213
Exercise of stock options	579,476	6	4,540				4,546
Exercise of warrants	448,281	4	7,060				7,064
Acquisition of treasury stock	(2,614,748)				(51,000)		(51,000)
Other comprehensive loss, net						(8,608)	(8,608)
Net loss				(64,203)			(64,203)
<b>Balance at December 31, 2013</b>	34,048,366	\$ 406	\$ 116,222	\$ 105,889	\$ (90,918)	\$ (50,058)	\$ 81,541

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

**Table of Contents****Index to Financial Statements****MAGNACHIP SEMICONDUCTOR CORPORATION AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Year Ended December 31,		
	2013	2012 (As Restated)	2011 (As Restated)
(In thousands of US dollars)			
<b>Cash flows from operating activities</b>			
Net income (loss)	\$ (64,203)	\$ 110,038	\$ (11,301)
Adjustments to reconcile net income (loss) to net cash provided by operating activities			
Depreciation and amortization	32,726	32,066	51,224
Provision for severance benefits	23,169	21,530	16,481
Amortization of debt issuance costs and original issue discount	890	1,009	970
Loss (gain) on foreign currency translation, net	(18,329)	(64,886)	14,835
Restructuring and impairment charges	6,378		2,499
Stock-based compensation	2,213	2,389	2,216
Loss on early extinguishment of senior notes	32,812		5,459
Other	1,479	(663)	1,450
Changes in operating assets and liabilities			
Accounts receivable	26,756	5,758	19,197
Inventories, net	9,593	(12,495)	4,359
Other receivables	(3,964)	(337)	2,403
Other current assets	11,026	10,835	(5,093)
Deferred tax assets	1,470	1,914	1,509
Accounts payable	(3,111)	(1,737)	18,144
Other accounts payable	(10,376)	(11,007)	(7,952)
Accrued expenses	20,974	24,304	(1,668)
Other current liabilities	(387)	9,497	(1,151)
Other non-current liabilities	6,073	(3,329)	837
Payment of severance benefits	(6,130)	(6,997)	(10,478)
Other	(304)	217	(363)
Net cash provided by operating activities	68,755	118,106	103,577
<b>Cash flows from investing activities</b>			
Decrease in restricted cash	125	13,021	6,410
Increase in restricted cash		(6,238)	(13,609)
Proceeds from disposal of plant, property and equipment	94	937	219
Purchase of property, plant and equipment	(42,483)	(58,538)	(47,113)
Payment for intellectual property registration	(605)	(882)	(696)
Payment for purchase of Dawin, net of cash acquired		(8,642)	
Collection of guarantee deposits	117	81	1,544
Payment of guarantee deposits	(1,365)	(320)	(2,482)
Other	14	37	(371)
Net cash used in investing activities	(44,103)	(60,544)	(56,098)
<b>Cash flows from financing activities</b>			
Proceeds from issuance of common stock	11,375	962	9,336
Proceeds from issuance of senior notes	218,836		
Repayment of long-term borrowings	(229,333)		
Repurchase of senior notes			(50,307)
Repayment of obligations under capital lease		(2,968)	(6,312)
Acquisition of treasury stock	(51,000)	(28,125)	(11,793)
Net cash used in financing activities	(50,122)	(30,131)	(59,076)



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Effect of exchange rates on cash and cash equivalents	(3,162)	(7,304)	1,536
Net increase (decrease) in cash and cash equivalents	(28,632)	20,127	(10,061)
<b>Cash and cash equivalents</b>			
Beginning of the period	182,238	162,111	172,172
End of the period	\$ 153,606	\$ 182,238	\$ 162,111
<b>Supplemental cash flow information</b>			
Cash paid for interest	\$ 16,223	\$ 21,955	\$ 24,722
Cash paid (refunded) for income taxes	\$ 6,267	\$ (609)	\$ 1,954
<b>Non-cash investing and financing activities</b>			
Property, plant and equipment additions in other accounts payable	\$ 116	\$ 2,989	\$ 1,052
Deferred offering costs reclassified as reduction of additional paid-in capital	\$	\$	\$ 7,240

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

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**MAGNACHIP SEMICONDUCTOR CORPORATION AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(TABULAR DOLLARS IN THOUSANDS, EXCEPT SHARE DATA)**

**Restatement**

The Company's consolidated financial statements as of and for the years ended December 31, 2012 and 2011 and related financial information have been restated to correct accounting errors. For further details on the nature of the corrections and the related effects on the Company's previously issued consolidated financial statements, see Note 2, Restatement of Consolidated Financial Statements. Restated balances have been identified with the notation "As restated" where appropriate. Throughout these notes, the term "as previously reported" will be used to refer to balances from 2012 and 2011 consolidated financial statements as reported prior to the restatement.

**1. Business, Basis of Presentation and Summary of Significant Accounting Policies**

***Business***

MagnaChip Semiconductor Corporation (together with its subsidiaries, the Company) is a Korea-based designer and manufacturer of analog and mixed-signal semiconductor products for high-volume consumer, computer and communication applications. The Company's business is comprised of three key business lines: Display Solutions, Power Solutions and Semiconductor Manufacturing Services. The Company's Display Solutions products include display drivers for use in a wide range of flat panel displays and mobile multimedia devices. The Company's Power Solutions products include discrete and integrated circuit solutions for power management in high-volume consumer, computer and communication applications. The Company's Semiconductor Manufacturing Services provides specialty analog and mixed-signal foundry services for fabless semiconductor companies that serve the consumer, computing and wireless end markets.

***Basis of Presentation***

The consolidated financial statements are presented in accordance with accounting principles generally accepted in the United States of America (US GAAP).

Significant accounting policies followed by the Company in the preparation of the accompanying consolidated financial statements are summarized below.

***Principles of Consolidation***

The consolidated financial statements include the accounts of the Company including its wholly-owned subsidiaries. All intercompany transactions and balances are eliminated in consolidation.

***Business Combination***

Pursuant to accounting guidance for business combinations (ASC 805), the Company (i) applies the definition of "business" and "business combination" as prescribed by the revised guidance; (ii) recognize assets acquired, liabilities assumed (including goodwill) measured at fair value at the acquisition date; (iii) recognize acquisition-related expenses in earnings; and (iv) capitalize technology and customer relationships at fair value as intangible assets.

***Use of Estimates***

The preparation of financial statements in accordance with US GAAP requires management to make estimates and assumptions about future events. These estimates and the underlying assumptions affect the amounts of assets and liabilities reported, disclosures about contingent assets and liabilities, and reported amounts of revenue and expenses. Such estimates include the valuation of accounts receivable, inventories, goodwill, stock based compensation, property plant and equipment, intangible assets, other long-lived assets, long-term employee benefits, contingencies liabilities, and assumptions used in the calculation of income taxes and sales incentives, among others. Although these estimates

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and assumptions are based on management's best knowledge of current events and actions that the Company may undertake in the future, actual results may be significantly different from the estimates. Changes in those estimates resulting from continuing changes in the economic environment will be reflected in the financial statements in future periods.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**(TABULAR DOLLARS IN THOUSANDS, EXCEPT SHARE DATA)**

***Foreign Currency Translation***

The Company has assessed in accordance with ASC 830, *Foreign Currency Matters* (ASC 830), the functional currency of each of its subsidiaries in Luxembourg and the Netherlands and has designated the U.S. dollar to be their respective functional currencies. The Company and its other subsidiaries are utilizing their local currencies as their functional currencies. The financial statements of the subsidiaries in functional currencies other than the U.S. dollar are translated into the U.S. dollar in accordance with ASC 830. All the assets and liabilities are translated to the U.S. dollar at the end-of-period exchange rates. Capital accounts are determined to be of a permanent nature and are therefore translated using historical exchange rates. Revenues and expenses are translated using average exchange rates for the respective periods. Foreign currency translation adjustments arising from differences in exchange rates from period to period are included in the foreign currency translation adjustment account in accumulated comprehensive income (loss) of stockholders' equity. Gains and losses due to transactions in currencies other than the functional currency are included as a component of other income (expense) in the statement of operations.

***Cash and Cash Equivalents***

Cash equivalents consist of highly liquid investments with an original maturity date of three months or less when purchased.

***Accounts Receivable Reserves***

An allowance for doubtful accounts is provided based on the aggregate estimated uncollectability of the Company's accounts receivable. The Company also records an estimate for sales returns, included within accounts receivable, net, based on the historical experience of the amount of goods that will be returned and refunded or replaced. In addition, the Company also includes in accounts receivable, an allowance for additional products that may have to be provided, free of charge, to compensate customers for products that do not meet previously agreed yield criteria, the low yield compensation reserve.

***Sales of Accounts Receivable***

The Company accounts for transfers of financial assets under ASC 860, *Transfers and Servicing*, as either sales or financings. Transfers of financial assets that result in sales accounting are those in which (1) the transfer legally isolates the transferred assets from the transferor, (2) the transferee has the right to pledge or exchange the transferred assets and no condition both constrains the transferee's right to pledge or exchange the assets and provides more than a trivial benefit to the transferor, and (3) the transferor does not maintain effective control over the transferred assets. If the transfer does not meet these criteria, the transfer is accounted for as a financing. Financial assets that are treated as sales are removed from the Company's accounts with any realized gain or loss reflected in earnings during the period of sale.

***Inventories***

Inventories are stated at the lower of cost or market, using the average cost method, which approximates the first in, first out method (FIFO). If net realizable value is less than cost at the balance sheet date, the carrying amount is reduced to the realizable value, and the difference is recognized as a loss on valuation of inventories within cost of sales. Inventory reserves are established when conditions indicate that the net realizable value is less than costs due to physical deterioration, obsolescence, changes in price levels, or other causes based on individual facts and circumstances. Reserves are also established for excess inventory based on inventory levels in excess of six months of projected demand for each specific product.

In addition, as prescribed in ASC 330, *Inventory*, the cost of inventories is determined based on the normal capacity of each fabrication facility. In case the capacity utilization is lower than a certain level that management believes to be normal, the fixed overhead costs per production unit which exceeds those under normal capacity are charged to cost of sales rather than capitalized as inventories.



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Property, plant and equipment are stated at cost, less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets as set forth below.

Buildings	30 - 40 years
Building related structures	10 - 20 years
Machinery and equipment	10 - 12 years
Vehicles and others	5 years

Routine maintenance and repairs are charged to expense as incurred. Expenditures that enhance the value or significantly extend the useful lives of the related assets are capitalized.

Prior to July 1, 2011, the Company depreciated machinery and measurement equipment using the straight-line method over 5 to 10 years. However, based on an evaluation of the appropriateness of depreciable lives including a review of historical usage and a change in its strategic business plan, the Company determined that machinery and measurement equipment have a longer life than previously estimated. As a result, the Company changed the estimate of depreciable lives for machinery and measurement equipment to 10 to 12 years. The purpose of this change was to more accurately reflect the productive life of these assets. In accordance with ASC 250-10-45, Accounting Changes and Error Corrections, the change in life has been accounted for as a change in accounting estimate on a prospective basis from July 1, 2011. As a result of the change in the estimated life of machinery and measurement equipment, cost of sales was \$4.8 million lower, net loss was \$5.2 million higher and net loss per diluted share was \$0.13 higher for the year ended December 31, 2011.

***Impairment of Long-Lived Assets***

The Company reviews property, plant and equipment and other long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable in accordance with ASC 360, Property, Plant and Equipment (ASC 360). Recoverability is measured by comparing its carrying amount with the future net undiscounted cash flows the assets are expected to generate. If such assets are considered to be impaired, the impairment is measured as the difference between the carrying amount of the assets and the fair value of assets using the present value of the future net cash flows generated by the respective long-lived assets.

***Restructuring Charges***

The Company recognizes restructuring charges in accordance with ASC 420, Exit or Disposal Cost Obligations (ASC 420). Certain costs and expenses related to exit or disposal activities are recorded as restructuring charges when liabilities for those costs and expenses are incurred.

***Lease Transactions***

The Company accounts for lease transactions as either operating leases or capital leases, depending on the terms of the underlying lease agreements. Machinery and equipment acquired under capital lease agreements are recorded at the lower of the present value of future minimum lease payments and estimated fair value of leased property and depreciated using the straight-line method over their estimated useful lives. In addition, the aggregate lease payments are recorded as capital lease obligations, net of unaccrued interest. Interest is amortized over the lease period using the effective interest rate method. Leases that do not qualify as capital leases are classified as operating leases, and the related rental payments are expensed on a straight-line basis over the shorter of the estimated useful lives of the leased property and the lease term.



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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**(TABULAR DOLLARS IN THOUSANDS, EXCEPT SHARE DATA)**

***Software***

The Company capitalizes certain external costs that are incurred to purchase and implement internal-use computer software. Direct costs relating to the development of software for internal use are capitalized after technological feasibility has been established, in accordance with ASC 350, Intangibles-Goodwill and Other (ASC 350). Depreciation is recorded on a straight-line basis over the software's estimated useful life, which is usually five years.

***Intangible Assets***

Intangible assets other than intellectual property include technology and customer relationships which are amortized on a straight-line basis over periods ranging from one to five years. Intellectual property assets acquired represent rights under patents, trademarks and property use rights and are amortized over their respective periods of benefit, ranging up to ten years, on a straight-line basis.

***Goodwill and Acquired Intangible Assets***

The Company records goodwill when the purchase price of an acquisition exceeds the fair value of the net tangible and intangible assets as of the date of acquisition. Goodwill is subject to impairment testing using a two-step process after considering a qualitative assessment. The first step of the goodwill impairment test is to identify potential impairment by comparing the fair value of the reporting unit with its carrying amount, including goodwill. If the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not impaired and the second step of the impairment test is not required. If the carrying amount of a reporting unit exceeds its fair value, the second step of the goodwill impairment test is performed to measure the amount of the impairment loss, if any. The second step of the goodwill impairment test compares the implied fair value (i.e., the fair value of reporting unit less the fair value of the unit's assets and liabilities, including identifiable intangible assets) of the reporting unit's goodwill with the carrying amount of that goodwill. If the carrying value of goodwill exceeds its implied fair value, the excess is required to be recorded as an impairment charge in earnings. The Company performs its annual goodwill impairment analysis during the fourth quarter. Goodwill must be tested between annual tests if events or changes in circumstances indicate that the asset might be impaired. The Company reviews changes in the business climate, changes in market capitalization, legal factors, operating performance indicators and competition, among other factors and their potential impact on the Company's fair value determination.

***Fair Value Disclosures of Financial Instruments***

The Company follows ASC 820, Fair Value Measurements and Disclosures (ASC 820) for measurement and disclosures about fair value of its financial instruments. ASC 820 establishes a framework for measuring fair value in US GAAP, and expands disclosures about fair value measurements. To increase consistency and comparability in fair value measurements and related disclosures, ASC 820 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. The fair value hierarchy gives the highest priority to quoted prices (unadjusted) in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The three levels of fair value hierarchy defined by ASC 820 are:

Level 1 Inputs are unadjusted, quoted prices in active markets for identical assets or liabilities at the measurement date.

Level 2 Inputs (other than quoted market prices included in Level 1) are either directly or indirectly observable for the asset or liability through correlation with market data at the measurement date and for the duration of the instrument's anticipated life.

Level 3 Inputs reflect management's best estimate of what market participants would use in pricing the asset or liability at the measurement date. Consideration is given to the risk inherent in the valuation technique and the risk inherent in the inputs to the model. Valuation of instruments includes unobservable inputs to the valuation methodology that are significant to the measurement of fair value of assets or liabilities.



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As defined by ASC 820, the fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale, which was further clarified as the price that would be received to sell an asset or paid to transfer a liability ( an exit price ) in an orderly transaction between market participants at the measurement date. The carrying amounts of the Company's financial assets and liabilities, such as cash and cash equivalents, accounts receivable, other receivables, accounts payable and other accounts payable approximate their fair values because of the short maturity of these instruments.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**(TABULAR DOLLARS IN THOUSANDS, EXCEPT SHARE DATA)**

***Accrued Severance Benefits***

The majority of accrued severance benefits is for employees in the Company's Korean subsidiary, MagnaChip Semiconductor Ltd. Pursuant to the Employee Retirement Benefit Security Act of Korea, eligible employees and 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, 2013, 98% of all employees of the Company were eligible for severance benefits.

Accrued severance benefits are funded through a group severance insurance plan. The amounts funded under this insurance plan are classified as a reduction of the accrued severance benefits. Subsequent accruals are to be funded at the discretion of the Company.

In accordance with the National Pension Act of the Republic of Korea, a certain portion of accrued severance benefits is deposited with the National Pension Fund and deducted from the accrued severance benefits. The contributed amount is paid to employees from the National Pension Fund upon their retirement.

***Revenue Recognition***

Revenue is recognized when there is persuasive evidence of an arrangement, the price to the buyer is fixed or determinable, delivery has occurred and collectability of the sales price is reasonably assured. Revenue from the sale of products is recognized when title and risk of loss transfers to the customer, which is generally when the product is shipped to or accepted by the customer depending on the terms of the arrangement.

A portion of the Company's sales are made through distributors for which revenue recognition criteria are usually met when the product is shipped to or accepted by the distributors, consistent with the principles described above. However, the risk of loss may not pass upon shipment of products to the distributors due to a variety of reasons, including the nature of the business arrangement with the distributors. For example, the financial condition of a distributor may indicate that payments by the distributor to the Company are contingent on resale of products to an end customer. In this situation, the Company defers recognition of revenue and cost of revenue on transactions with such distributor until the Company is informed by the distributor that the product has been resold to the end customer.

In accordance with revenue recognition guidance, any tax assessed by a governmental authority that is directly imposed on a revenue-producing transaction between a seller and a customer is presented in the statements of operations on a net basis (excluded from revenues).

The Company provides a warranty, under which customers can return defective products. The Company estimates the costs related to those defective product returns and records them as a component of cost of sales.

In addition, the Company offers sales returns (other than those that relate to defective products under warranty), yield provisions, cash discounts for early payments and certain allowances to its customers, including distributors. The Company records reserves for those returns, discounts and allowances as a deduction from sales, based on historical experience and other quantitative and qualitative factors.

All amounts billed to a customer related to shipping and handling are classified as sales while all costs incurred by the Company for shipping and handling are classified as selling, general and administrative expenses. The amounts charged to selling, general and administrative expenses were \$2,850 thousand, \$3,057 thousand, and \$2,408 thousand for the years ended December 31, 2013, 2012 and 2011, respectively.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**(TABULAR DOLLARS IN THOUSANDS, EXCEPT SHARE DATA)**

***Derivative Financial Instruments***

The Company applies the provisions of ASC 815, Derivatives and Hedging (ASC 815). This Statement requires the recognition of all derivative instruments as either assets or liabilities measured at fair value.

Under the provisions of ASC 815, the Company may designate a derivative instrument as hedging the exposure to variability in expected future cash flows that are attributable to a particular risk (a cash flow hedge) or hedging the exposure to changes in the fair value of an asset or a liability (a fair value hedge). Special accounting for qualifying hedges allows the effective portion of a derivative instrument's gains and losses to offset related results on the hedged item in the consolidated statements of operations and requires that a company formally document, designate and assess the effectiveness of the transactions that receive hedge accounting treatment. Both at the inception of a hedge and on an ongoing basis, a hedge must be expected to be highly effective in achieving offsetting changes in cash flows or fair value attributable to the underlying risk being hedged. If the Company determines that a derivative instrument is no longer highly effective as a hedge, it discontinues hedge accounting prospectively and future changes in the fair value of the derivative are recognized in current earnings. The Company assesses hedge effectiveness at the end of each quarter.

In accordance with ASC 815, changes in the fair value of derivative instruments that are cash flow hedges are recognized in accumulated other comprehensive income (loss) and reclassified into earnings in the period in which the hedged item affects earnings. Ineffective portions of a derivative instrument's change in fair value are immediately recognized in earnings. Derivative instruments that do not qualify, or cease to qualify, as hedges must be adjusted to fair value and the adjustments are recorded through net income (loss).

The cash flows from derivative instruments receiving hedge accounting treatment are classified in the same categories as the hedged items in the consolidated statements of cash flows.

***Advertising***

The Company expenses advertising costs as incurred. Advertising expense was approximately \$161 thousand, \$142 thousand and \$148 thousand for the years ended December 31, 2013, 2012 and 2011, respectively.

***Product Warranties***

The Company records, in other current liabilities, warranty liabilities for the estimated costs that may be incurred under its basic limited warranty. The standard limited warranty period is one year for the majority of products. This warranty covers defective products, and related liabilities are accrued when product revenues are recognized. Factors that affect the Company's warranty liability include historical and anticipated rates of warranty claims and repair or replacement costs per claim to satisfy the Company's warranty obligation. As these factors are impacted by actual experience and future expectations, the Company periodically assesses the adequacy of its recorded warranty liabilities and adjusts the amounts when necessary.

***Research and Development***

Research and development costs are expensed as incurred and include wafers, masks, employee expenses, contractor fees, building costs, utilities and administrative expenses. Acquired in-process research and development, or IPR&D, assets are considered indefinite-lived intangible assets and are not subject to amortization. An IPR&D asset must be tested for impairment annually or more frequently if events or changes in circumstances indicate that the asset 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.

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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, the useful life of the IPR&D asset is determined and amortized accordingly.

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***Licensed Patents and Technologies***

The Company has entered into a number of royalty agreements to license patents and technology used in the design of its products. The Company carries two types of royalties: lump-sum and running basis. Lump-sum royalties which require initial payments, usually paid in installments, represent a non-refundable commitment, such that the total present value of these payments is recorded as a prepaid expense and a liability upon execution of the agreements and the costs are amortized over the contract period using the straight-line method and charged to research and development expenses in the consolidated statements of operations.

Running royalties are paid based on the revenue of related products sold by the Company.

***Stock-Based Compensation***

The Company follows the provisions of ASC 718, Compensation-Stock Compensation (ASC 718). Under ASC 718, stock-based compensation cost is measured at the grant date, based on the fair value of the award, and is recognized as expense over the requisite service period. As permitted under ASC 718, the Company elected to recognize compensation expense for all options with graded vesting based on the graded attribution method.

The Company uses the Black-Scholes option-pricing model to measure the grant-date-fair-value of options. The Black-Scholes model requires certain assumptions to determine an option's fair value, including expected term, risk free interest, expected volatility and fair value of underlying common share. The expected term of each option grant was based on employees' expected exercises and post-vesting employment termination behavior and the risk free interest rate was based on the U.S. Treasury yield curve for the period corresponding with the expected term at the time of grant. The expected volatility was estimated using historical volatility of share prices of similar public entities. No dividends were assumed for this calculation of option value.

***Earnings per Share***

In accordance with ASC 260, Earnings Per Share (ASC 260), the Company computes basic earnings per share by dividing net income (loss) available to common stockholders by the weighted average number of common shares outstanding during the period. Diluted earnings per share reflect the dilution of potential common stock outstanding during the period. In determining the hypothetical shares repurchased, the Company uses the average share price for the period.

***Income Taxes***

Prior to its conversion to a corporation, MagnaChip Semiconductor LLC elected to be treated as a partnership for U.S. federal income tax purposes and therefore was not subject to income taxes on its income. Taxes on its income were the responsibility of the individual equity owners of MagnaChip Semiconductor LLC. MagnaChip Semiconductor Corporation became a taxable entity according to the corporate conversion in March 2011. The Company operates a number of subsidiaries that are subject to local income taxes in those territories.

The Company accounts for income taxes in accordance with ASC 740, Income Taxes (ASC 740). ASC 740 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 tax returns. Under this method, deferred tax assets and liabilities are determined based upon the difference between the financial statement carrying amounts 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 it is 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.



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The Company recognizes and measures uncertain tax positions taken or expected to be taken in a tax return utilizing a two-step process. In the first step, recognition, the Company determines whether it is more-likely-than-not that a tax position will be sustained upon examination, including resolution of any related appeals or litigation processes, based on the technical merits of the position. The second step addresses measurement of a tax position that meets the more-likely-than-not criteria. The tax position is measured at the largest amount of benefit that has a likelihood of greater than 50 percent of being realized upon ultimate settlement.

***Concentration of Credit Risk***

The Company performs periodic credit evaluations of its customers' financial condition and generally does not require collateral for customers on accounts receivable. The Company maintains reserves for potential credit losses, which are periodically reviewed.

***Recent Accounting Pronouncements***

In June 2014, the FASB issued Accounting Standards Update No. 2014-11, *Transfers and Servicing (Topic 860): Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures* (ASU 2014-11). The guidance in this update changes the accounting for repurchase-to-maturity transactions and repurchasing financing arrangements. It also requires enhanced disclosures about repurchase agreements and other similar transactions. The accounting changes in this update are effective for public companies for the first interim or annual period beginning after December 15, 2014. In addition, for public companies, the disclosure for certain transactions accounted for as a sale is effective for the first interim or annual period beginning on or after December 15, 2014, and the disclosure for transactions accounted for as secured borrowings is required to be presented for annual periods beginning after December 15, 2014, and interim periods beginning after March 15, 2015. Early application is not permitted. The Company is currently evaluating the impact of the adoption of ASU 2014-11 on its consolidated financial statements.

In May 2014, the FASB issued Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers* (ASU 2014-09). ASU 2014-09 supersedes the revenue recognition requirements in *Revenue Recognition (Topic 605)*, and requires entities to recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services. ASU 2014-09 is effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. Early adoption is not permitted. The Company is currently evaluating the impact of the adoption of ASU 2014-09 on its consolidated financial statements.

In July 2013, the FASB issued Accounting Standards Update No. 2013-11, *Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists* (ASU 2013-11). The adoption of ASU 2013-11 will require an unrecognized tax benefit, or a portion of an unrecognized tax benefit to be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward, unless an exception applies. The amendments in this update are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2013. The adoption of this standard did not have a material impact on the Company's consolidated financial statements.

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In February 2013, the FASB issued Accounting Standards Update No. 2013-02, Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income (ASU 2013-02), which requires an entity to provide information about the amounts reclassified out of accumulated other comprehensive income by component. In addition, ASU 2013-02 requires an entity to present, either on the face of the income statement or in the notes to financial statements, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income but only if the amount reclassified is required under US GAAP to be reclassified to net income in its entirety in the same reporting period. For other amounts, an entity is required to cross-reference to other disclosures required under US GAAP that provide additional detail about those amounts. The update does not change the current requirements for reporting net income or other comprehensive income in financial statements and is effective prospectively for reporting periods beginning after December 15, 2012. The Company's adoption of ASU 2013-02 did not have a material impact on its consolidated financial statements.



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**2. Restatement of Consolidated Financial Statements**

***Background and Scope of Investigation***

In January 2014, the Audit Committee of the Company's Board of Directors (the "Audit Committee") commenced an internal investigation into the Company's accounting practices and procedures with outside professional advisors (the "Independent Investigation"). The Independent Investigation involved procedures that included forensic analysis and inquiry directed to aspects of the Company's accounting and financial reporting practices, and evaluated aspects of its historical accounting and financial reporting practices since 2011. The Independent Investigation initially raised questions relating to numerous accounting transactions, most of which involved revenue recognition practices relating to the Company's distributor relationships.

Based on initial findings and observations from the Independent Investigation regarding errors in the Company's revenue recognition practices related to sales through distributors, the Company announced on March 11, 2014 that the Audit Committee concluded that the Company's previously issued financial statements for each of the years ended December 31, 2012 and December 31, 2011 and the quarters ended March 31, June 30 and September 30 in 2013 and 2012 should no longer be relied upon.

The Independent Investigation continued through October 2014 and identified numerous accounting errors, most of which involved revenue recognition, cost of goods sold, inventory reserves, fixed asset capitalization, and expense recognition and allocation. It also identified deficiencies regarding business practices related to distributors, non-distributor customers and vendors. Concurrently with the Independent Investigation, management conducted extensive internal reviews of its financial accounting and reporting practices and internal control over financial reporting. The Independent Investigation and management's internal review identified evidence of errors in the Company's accounting and deficiencies in its internal control over financial reporting.

***Restatement Adjustments***

As a result of the issues identified in the Independent Investigation and the management's internal review, the Company restated its previously reported consolidated financial statements for the years ended December 31, 2012 and 2011, including the stockholders' equity balance as of January 1, 2011, in order to correct certain previously reported amounts.

The impact of the errors to the previous statements of operations, balance sheets and statements of cash flows has been detailed in the tables below. A description of the nature of the errors follows.

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***Revenue Recognition***

***Sales through Distributors*** The largest portion of revenue recognition adjustments relate to correcting the timing and amount of revenue recognized on the sale of products through certain distributors. During the course of the Independent Investigation and management's internal review, it was determined that the application of its revenue recognition policy was not appropriate in these situations. Revenue had been recognized without persuasive evidence of an arrangement and the collectability of the sales price not being reasonably assured. Furthermore, in some circumstances, revenue was recognized prior to risk of loss being transferred.

Accordingly, related revenues and cost of sales were reversed in the period in which the accounting errors took place and recognized in subsequent periods when all of the revenue recognition criteria were met. These adjustments also include the impact of foreign currency exchange rate differences between periods of de-recognition and recognition of the revenue transactions.

***Other*** The other revenue recognition adjustments include transactions where the Company recognized revenue in an incorrect period or recognized an incorrect amount of revenue. The primary categories of other revenue recognition adjustments include the following:

***Unfinished Products*** The Company identified recognition of revenues on unfinished or semi-finished products. These products were completed and shipped to the distributor or end customer after the related revenues were recognized.

***Non-recurring Engineering ( NRE )*** The Company provides NRE services to develop prototype wafers mainly for the Company's foundry service customers. The Company identified revenue related to certain NRE arrangements recognized earlier or later than at the time that the required prototype wafer was delivered.

***Concessions*** The Company identified various types of unrecorded concessions provided to its distributors and customers, including future discounts, price adjustments, free products and others to incentivize distributors and customers to make purchases. Such concessions should be recorded as a deduction from revenues at the time when the related revenues are recognized.

***Direct Customer Sales*** The Company identified certain sales transactions to a customer that were recognized when the products were taken from its manufacturing facility to warehouse, rather than when the products were delivered to the customer's location. The arrangement related to these transactions did not have a fixed schedule for delivery to a customer's location and were prematurely recognized as revenues.

***Hedge Accounting*** As a result of incorrect recognition of revenue discussed in *Revenue Recognition - Sales through Distributors* and *Revenue Recognition - Other*, the Company's hedge accounting, related to the change in the effective portion of our derivative instrument's gains and losses, was adjusted as key assumptions determining the amount are derived from revenues.

***Reserves*** As a result of incorrect recognition of revenue discussed in *Revenue Recognition - Sales through Distributors* and *Revenue Recognition - Other*, adjustments for reserves, related to estimated sales returns, low yield compensation, and warranty liabilities, also required corrections as key assumptions in determining these amounts are derived from revenues.

***Manufacturing Cost*** The Company corrected certain fabrication and back-end processing costs that were not recorded consistently with the progression of its manufacturing activities. As a result, the Company's cost of sales were increased by approximately \$2,600 thousand and decreased by approximately \$1,600 thousand for the years ended December 31, 2012 and 2011, respectively, to account for manufacturing costs

during the period in which they were incurred.

***Inventory Reserves***

The Company corrected errors with respect to how the Company previously forecasted revenues for the purposes of determining inventory reserves. As a result, the Company performed a retrospective review of its inventory reserve calculation and revised the revenue forecast component of the reserve calculation. In addition, as a result of the correction of revenue for certain transactions discussed in *Revenue Recognition Sales through Distributors* and *Revenue Recognition Other*, a significant portion of the revenues were reversed rather than deferred. The failure of the anticipated orders from final customers materializing resulted in a significantly higher excess and obsolete reserves for the restatement and subsequent periods. In addition, the Company corrected errors with respect to obsolete and aged inventory reserves that were previously understated due to the misclassification or errors in certain inventory items. Based on this review and revision of the reserve estimates, the Company has determined that it previously understated inventory reserves for the years ended December 31, 2012 and 2011.

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***Understated Employee Benefits***

The Company identified that certain amounts of earned vacation were not included in calculating its severance accrual, resulting in an understatement of accrued severance benefits.

The Company also identified that vested compensation claims by employees who have rendered long-term services were accounted for on a cash basis rather than on an accrual basis, resulting in an understatement of long-term service liabilities.

***Settlement Obligations***

The Company identified certain cash and in-kind payments to a customer in connection with settling a claim involving products that may have caused a failure in the customer's product. Although the Company does not agree with the claim, as its product met the customer's specifications, the Company considered a number of factors and decided not to dispute the claim but make certain cash and in-kind payments as demanded by the customer. A number of cash and in-kind payments were made to the customer during the each of the years presented in Note 2 and were recorded as cost of sales and/or reduction of revenues at the time that they were paid rather than accrued when each cash or in-kind payment became probable.

***Tax Matters***

***Income Tax*** Realization of the deferred tax assets is dependent on the Company's ability to generate future taxable income. In the previously reported consolidated financial statements for the year ended December 31, 2012, the Company had released \$64,749 thousand of valuation allowance against deferred tax assets at the Company's Korean subsidiary and, consequently, a corresponding amount of income tax benefit was recognized.

During the management's internal review, key assumptions and forecast of future taxable income were reassessed based on restated financial data as to whether deferred tax assets will ultimately be realized. In its reassessment, the Company concluded that the objective and verifiable negative evidence represented by recent actual operating losses outweighed more subjective positive evidence of anticipated future income over the periods in which the deferred tax assets are deductible. As a result, the Company determined that it was necessary to record a full valuation allowance on deferred tax assets of \$64,749 thousand as of December 31, 2012. The related expense was recorded in the Company's statement of operations for the year ended December 31, 2012 as an income tax expense. In addition, management's review identified income tax adjustments attributable to certain foreign subsidiaries other than Korea and made an adjustment amounting to \$112 thousand.

The restatement adjustments for the years ended December 31, 2012 and 2011 impacted our temporary differences between our book income and taxable income, which resulted in an increase of our deferred tax assets for which a full valuation allowance was recorded for the fiscal years then ended and thus there was no tax impact of the other restatement adjustments.

***Other*** The Company identified liabilities related to non-income-based taxes that the Company may be exposed to in connection with certain tax positions taken during the years ended December 31, 2012 and 2011. We considered the period in which the underlying cause of action occurred, degree of probability of an unfavorable outcome and whether we could make a reasonable estimate.

***Account Classification***

***Revenue*** The Company corrected the classification of rental income that was previously recorded as net sales when it should have been recorded in other income (expenses).

***Expense*** The Company identified errors in classification of expenses that were recorded as research and development when they should have been recorded as cost of sales and vice versa for the years ended December 31, 2012 and 2011. In addition, the Company identified an error in

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the true-up of expenses that were recorded as selling, general and administrative when it should have been recorded as restructuring and impairment charges as of December 31, 2011. As a result, the Company recorded adjustments to correct the classifications in net expenses.

### *Cost Center Allocation*

The Company identified costs from certain cost centers that were not always allocated consistently with the nature of the Company's business. As a result, the Company recorded adjustments to reclassify the related costs from cost of sales to selling, general and administrative expenses.

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***Other Adjustments***

In addition to the restatement adjustments described above, the Company has identified other errors that are not material, individually or in the aggregate, but have been recorded in connection with the restatement.

Included in other adjustments are as follows:

*Accrued Liabilities* The Company identified costs related to certain goods and services that were recorded at the time of receipt of invoice rather than when the goods were delivered or services were rendered. As a result, the Company recorded adjustments to cost of sales and research and development expense.

*Maintenance Costs* The Company identified certain maintenance expenses that were inappropriately capitalized and depreciated for the year ended December 31, 2012. As a result, the Company corrected these errors by reversing the related amounts in property, plant and equipment, and recorded them in cost of sales and research and development expense for the year then ended.

*Stock-based Compensation* The Company identified incorrect application of assumptions in computation of stock-based compensation expenses. As a result, the Company recorded adjustments to increase compensation expenses for the years ended December 31, 2012 and 2011.

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The nature of the restatement adjustments and the impact of the adjustments to the year ended December 31, 2012 are shown in the following table:

	Year Ended December 31, 2012										
	Restatement Adjustments										
	As Previously	Revenue	Inventory	Employee	Settlement	Tax	Account	Cost	Other	Total	As
	Reported	Recognition	Reserves	Benefits	Obligations	Matter	Classification	Center	Adjustment	Adjustments	Restated
Net sales	\$ 819,592	\$ (11,400)	\$ 7,810	\$ 833	\$ 1,364	\$	\$ (2,220)	\$	\$	\$ (12,256)	\$ 807,336
Cost of sales	556,091	(1,301)	7,810	833	485		2,651	(3,231)	751	7,998	564,089
Gross profit	263,501	(10,099)	(7,810)	(833)	879		(4,871)	3,231	(751)	(20,254)	243,247
Selling, general and administrative expenses	78,971	(530)		121		773		3,286	56	3,706	82,677
Research and development expenses	78,723			137			(2,651)	(55)	101	(2,468)	76,255
Operating income	105,807	(9,569)	(7,810)	(1,091)	879	(773)	(2,220)		(908)	(21,492)	84,315
Other income (expenses)											
Interest expense, net	(22,600)										(22,600)
Foreign currency gain, net	55,961	1,281				(3)			41	1,319	57,280
Others	2,119	(449)					2,220			1,771	3,890
	35,480	832				(3)	2,220		41	3,090	38,570
Income before income taxes	141,287	(8,737)	(7,810)	(1,091)	879	(776)			(867)	(18,402)	122,885
Income tax expenses (benefits)	(52,014)						64,861			64,861	12,847
Net income	\$ 193,301	\$ (8,737)	\$ (7,810)	\$ (1,091)	\$ 879	\$ (65,637)	\$	\$	\$ (867)	\$ (83,263)	\$ 110,038
Earnings per common share											
Basic	\$ 5.29										\$ 3.01
Diluted	\$ 5.16										\$ 2.93

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Weighted average  
number of shares

Basic	36,567,684	36,567,684
Diluted	37,496,965	37,533,391



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The nature of the restatement adjustments and the impact of the adjustments to the year ended December 31, 2011 are shown in the following table:

	Year Ended December 31, 2011 Restatement Adjustments									
	As Previously Reported	Revenue Recognition	Inventory Reserves	Understated			Account Classification	Other Adjustments	Total Adjustments	As Restated
				Employee Benefits	Settlement Obligations	Tax Matters				
Net sales	\$ 772,831	\$ (27,539)	\$	\$	\$	\$	\$ (2,162)	\$	\$ (29,701)	\$ 743,130
Cost of sales	538,515	(10,104)	10,075	1,740	2,116		707	547	5,081	543,596
<b>Gross profit</b>	<b>234,316</b>	<b>(17,435)</b>	<b>(10,075)</b>	<b>(1,740)</b>	<b>(2,116)</b>	<b></b>	<b>(2,869)</b>	<b>(547)</b>	<b>(34,782)</b>	<b>199,534</b>
Selling, general and administrative expenses	68,367	(378)		323		1,223	497	191	1,856	70,223
Research and development expenses	76,767			409			(707)	120	(178)	76,589
Restructuring and impairment charges	4,096						(497)		(497)	3,599
Special expense for IPO incentive	12,146									12,146
<b>Operating income</b>	<b>72,940</b>	<b>(17,057)</b>	<b>(10,075)</b>	<b>(2,472)</b>	<b>(2,116)</b>	<b>(1,223)</b>	<b>(2,162)</b>	<b>(858)</b>	<b>(35,963)</b>	<b>36,977</b>
Other expenses										
Interest expense, net	(24,984)									(24,984)
Foreign currency loss, net	(11,633)	121						164	285	(11,348)
Loss on early extinguishment of senior notes	(5,459)									(5,459)
Others	(1,052)	518					2,162		2,680	1,628
	(43,128)	639					2,162	164	2,965	(40,163)
<b>Income (loss) before income taxes</b>	<b>29,812</b>	<b>(16,418)</b>	<b>(10,075)</b>	<b>(2,472)</b>	<b>(2,116)</b>	<b>(1,223)</b>	<b></b>	<b>(694)</b>	<b>(32,998)</b>	<b>(3,186)</b>
Income tax expenses	8,019					96			96	8,115
<b>Net income (loss)</b>	<b>\$ 21,793</b>	<b>\$ (16,418)</b>	<b>\$ (10,075)</b>	<b>\$ (2,472)</b>	<b>\$ (2,116)</b>	<b>\$ (1,319)</b>	<b>\$</b>	<b>\$ (694)</b>	<b>\$ (33,094)</b>	<b>\$ (11,301)</b>
Earnings (loss) per common share										
Basic	\$ 0.56									\$ (0.29)

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Diluted	\$	0.55	\$	(0.29)
Weighted average number of shares				
Basic		38,775,642		38,775,642
Diluted		39,774,898		38,775,642

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The following table presents the impact of the restatement adjustments on the Company's previously reported consolidated balance sheet as of December 31, 2012:

	As of December 31, 2012									
	Restatement Adjustments									
	As Previously Reported	Revenue Recognition	Inventory Reserves	Employee Benefits	Settlement Obligations	Understated Tax Matters	Account Classification	Other Adjustments	Total Adjustments	As Restated
<b>Assets</b>										
Current assets										
Cash and cash equivalents	\$ 182,238	\$	\$	\$	\$	\$	\$	\$	\$	\$ 182,238
Restricted cash	133									133
Accounts receivable, net	143,331	(37,217)					(131)		(37,348)	105,983
Inventories, net	89,363	11,787	(18,917)					151	(6,979)	82,384
Other receivables	1,429						131		131	1,560
Prepaid expenses	7,884									7,884
Current deferred income tax assets	22,768					(20,980)			(20,980)	1,788
Other current assets	9,680							944	944	10,624
<b>Total current assets</b>	<b>456,826</b>	<b>(25,430)</b>	<b>(18,917)</b>			<b>(20,980)</b>		<b>1,095</b>	<b>(64,232)</b>	<b>392,594</b>
Property, plant and equipment, net										
	238,256							(864)	(864)	237,392
Intangible assets, net	15,260									15,260
Long-term prepaid expenses	18,048									18,048
Deferred income tax assets	46,710					(44,124)			(44,124)	2,586
Other non-current assets	14,866									14,866
<b>Total assets</b>	<b>\$ 789,966</b>	<b>\$ (25,430)</b>	<b>\$ (18,917)</b>			<b>\$ (65,104)</b>		<b>\$ 231</b>	<b>\$ (109,220)</b>	<b>\$ 680,746</b>
Current liabilities										
Accounts payable	\$ 79,236	\$	\$	\$	\$	\$	\$	\$ 129	\$ 129	\$ 79,365
Other accounts payable	15,600							1,159	1,159	16,759
Accrued expenses	43,486				1,322	2,111		456	3,889	47,375
Derivative liabilities								944	944	944
Other current liabilities	9,973	(636)				207			(429)	9,544
<b>Total current liabilities</b>	<b>148,295</b>	<b>(636)</b>			<b>1,322</b>	<b>2,318</b>		<b>2,688</b>	<b>5,692</b>	<b>153,987</b>
Long-term borrowings, net										
	201,653									201,653
Accrued severance benefits, net	112,446			2,412					2,412	114,858
Other non-current liabilities	17,263			2,615				(1,159)	1,456	18,719
<b>Total liabilities</b>	<b>479,657</b>	<b>(636)</b>		<b>5,027</b>	<b>1,322</b>	<b>2,318</b>		<b>1,529</b>	<b>9,560</b>	<b>489,217</b>

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Commitments and contingencies (Note 20)										
Stockholders' equity										
Common stock	396									396
Additional paid-in capital	101,885						524	524		102,409
Retained earnings	287,251	(24,061)	(18,253)	(4,740)	(1,307)	(66,993)	(1,805)	(117,159)		170,092
Treasury stock	(39,918)									(39,918)
Accumulated other comprehensive loss	(39,305)	(733)	(664)	(287)	(15)	(429)	(17)	(2,145)		(41,450)
Total stockholders' equity	310,309	(24,794)	(18,917)	(5,027)	(1,322)	(67,422)	(1,298)	(118,780)		191,529
Total liabilities and stockholders' equity										
	\$ 789,966	\$ (25,430)	\$ (18,917)	\$	\$	\$ (65,104)	\$	\$ 231	\$ (109,220)	\$ 680,746

Note (i) *Cost Center Allocation* column presented in the restatement table for the consolidated statement of operations for the year ended December 31, 2012 is not included above as the related restatement adjustments do not impact the consolidated balance sheet. (ii) *Other Adjustments* column includes a balance sheet only reclassification adjustment for \$1,159 thousand from other non-current liabilities to other accounts payable; and a gross up adjustment of balance sheet related to derivatives of \$944 thousand.

**Table of Contents****Index to Financial Statements****MAGNACHIP SEMICONDUCTOR CORPORATION AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)****(TABULAR DOLLARS IN THOUSANDS, EXCEPT SHARE DATA)**

The following table presents the impact of the restatement adjustments on the Company's previously reported consolidated balance sheet as of December 31, 2011:

	As of December 31, 2011 Restatement Adjustments									As Restated
	As Previously Reported	Revenue Recognition	Inventory Reserves	Employee Benefits	Understated Settlement Obligations	Tax Matters	Account Classification	Other Adjustments	Total Adjustments	
<b>Assets</b>										
Current assets										
Cash and cash equivalents	\$ 162,111	\$	\$	\$	\$	\$	\$	\$	\$	\$ 162,111
Restricted cash	6,830									6,830
Accounts receivable, net	125,922	(23,055)					(245)		(23,300)	102,622
Inventories, net	62,836	10,221	(10,049)					(325)	(153)	62,683
Other receivables	256						245	8	253	509
Prepaid expenses	6,032									6,032
Current deferred income tax assets	3,406					(1,330)			(1,330)	2,076
Other current assets	12,503					(32)			(32)	12,471
<b>Total current assets</b>	<b>379,896</b>	<b>(12,834)</b>	<b>(10,049)</b>			<b>(1,362)</b>		<b>(317)</b>	<b>(24,562)</b>	<b>355,334</b>
Property, plant and equipment, net										
	182,663									182,663
Intangible assets, net	16,787									16,787
Long-term prepaid expenses	4,790									4,790
Deferred income tax assets	3,537					1,233			1,233	4,770
Other non-current assets	15,002									15,002
<b>Total assets</b>	<b>\$ 602,675</b>	<b>\$ (12,834)</b>	<b>\$ (10,049)</b>	<b>\$</b>	<b>\$</b>	<b>\$ (129)</b>	<b>\$</b>	<b>\$ (317)</b>	<b>(23,329)</b>	<b>\$ 579,346</b>
Current liabilities										
Accounts payable	\$ 77,848	\$	\$	\$	\$	\$	\$	\$ 32	\$ 32	\$ 77,880
Other accounts payable	13,452									13,452
Accrued expenses	31,723				2,100	1,216		430	3,746	35,469
Current portion of capital lease obligation	2,852									